LONDON
INSURANCE GROUP

Annual Report
2001

LONDON INSURANCE GROUP INC.
2001 ANNUAL REPORT

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FINANCIAL HIGHLIGHTS

(in millions of dollars except per common share amounts)

	2001	2000	% Change
For the year			
Premiums:			
Life insurance, guaranteed annuities and insured health products	$ **1,840**	$ 2,108	-13 %
Reinsurance and property and casualty	**3,455**	2,878	20 %
Segregated funds deposits: (1)			
Individual products	**1,001**	1,181	-15 %
Group products	**1,429**	773	85 %
Total premiums and deposits	$ **7,725**	$ 6,940	11 %
Fee and other income	**187**	153	22 %
Paid or credited to policyholders	**6,194**	5,857	6 %
Net income attributable to:			
Participating policyholder (2)	**14**	20	-30 %
Preferred shareholder	**18**	18	–
Common shareholder (2)	**132**	119	11 %
Net income	$ **164**	$ 157	4 %
Return on common shareholder equity	**13.1%**	12.6%	
Per Common Share			
Net earnings	$ **1.51**	$ 1.36	11 %
Dividends paid	**0.76**	0.76	–
Book value	**11.99**	11.17	7 %
At December 31			
Total assets	$ **25,257**	$ 24,317	4 %
Segregated funds assets (1)	**10,521**	9,045	16 %
Total assets under administration	$ **35,778**	$ 33,362	7 %
Total capital stock and surplus	$ **2,212**	$ 2,124	4 %

(1) **Segregated funds deposits**

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds. However, the Company does earn fee and other income related to these contracts.

Segregated fund contracts are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

(2) *Results include a charge of $73 million after-tax in the shareholder account and $9 million after-tax in the participating policyholder account from the events of September 11, 2001, related to the reinsurance business.*

CORPORATE PROFILE

London Insurance Group Inc. (LIG) is a financial services holding company providing insurance and insurance-related products in selected domestic and international markets. Founded in 1977, LIG holds 100% of the common shares of London Life Insurance Company.

LIG has more than $35 billion in assets under administration.

London Life Insurance Company

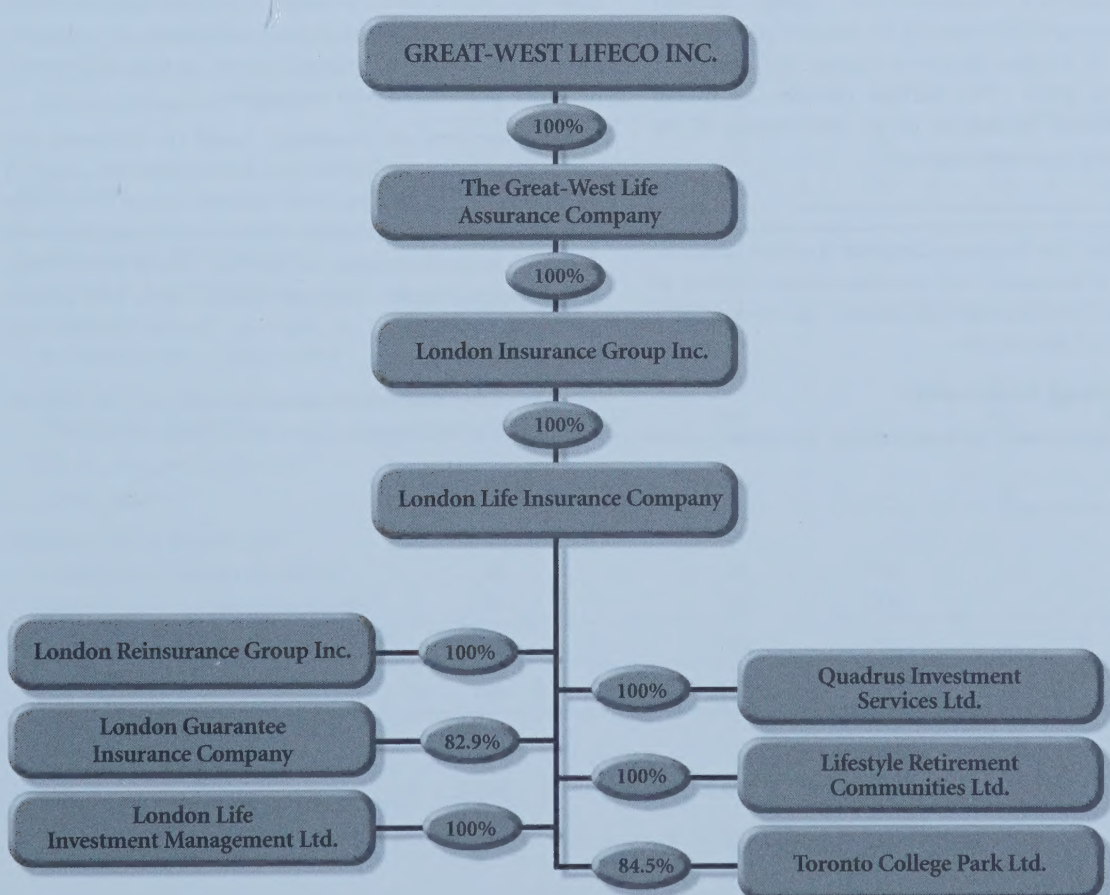
Founded in London, Ontario in 1874, London Life offers financial security advice and planning through its 3,000 member Freedom 55 Financial™ division. Freedom 55 Financial offers London Life's own brand of savings and investments, retirement income, life insurance and mortgages. In addition, Freedom 55 Financial security advisors offer a range of leading financial products from other financial institutions. London Life subsidiary, Quadrus Investment Services Ltd.™, offers 40 exclusive mutual funds under Quadrus Group of Funds™.

London Life is the leading provider of life insurance to Canadians, and has the largest participating life insurance business in Canada.

In addition to its domestic operations, the Company participates in international markets through London Reinsurance Group, a supplier of reinsurance in the United States and Europe.

The Great-West Life Assurance Company

LIG is a subsidiary of The Great-West Life Assurance Company, which holds 100% of LIG's common shares. Founded in Winnipeg in 1891, Great-West is a leading life and health insurer in the Canadian market. Great-West and its subsidiaries serve the financial security needs of more than 9 million Canadians.



MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Management's Discussion and Analysis (MD&A) presents management's view of the financial position and performance of London Insurance Group (LIG) in 2001 compared with 2000. The MD&A provides an overall discussion, followed by analyses of the performance of the Company's major reportable segments.

Business

Through London Life Insurance Company (London Life), LIG is a provider of insurance and insurance-related services in selected domestic and international markets. LIG owns a 100% voting interest in London Life.

Forward-looking Statements

This report may contain forward-looking statements about future operations, financial results, objectives and strategies of the Company. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate" and other similar expressions.

These statements are necessarily based on estimates and assumptions that are subject to risks and uncertainties, many of which are beyond the Company's control. Actual results may differ materially due to a variety of factors, including legislative or regulatory developments, competition, technological change, global capital market activity, interest rates and general economic conditions in Canada, North America or internationally.

These and other such factors should be taken into consideration when reading the Company's forward-looking statements.

FINANCIAL INFORMATION

Consolidated Operations

Years ended December 31

(in $ millions)	2001			2000			
	Shareholder	Participating Policyholder	Total	Shareholder	Participating Policyholder	Total	% Change
Income:							
Premium income (1)	$ 4,147	$ 1,148	$ 5,295	$ 3,854	$ 1,132	$ 4,986	6 %
Net investment income	929	772	1,701	867	773	1,640	4 %
Fee and other income	187	–	187	153	–	153	22 %
Total income	5,263	1,920	7,183	4,874	1,905	6,779	6 %
Benefits and Expenses:							
Paid or credited to policyholders	4,633	1,561	6,194	4,283	1,574	5,857	6 %
Other	387	244	631	396	234	630	–
Net operating income before income taxes	243	115	358	195	97	292	23 %
Income taxes	81	101	182	45	77	122	49 %
Net income before minority shareholder interest	162	14	176	150	20	170	4 %
Minority shareholder interest of London Insurance Group subsidiaries							
Preferred shareholder dividends	10	–	10	10	–	10	–
Minority shareholder interest	2	–	2	3	–	3	-33 %
	12	–	12	13	–	13	- 8 %
Net income	$ 150	$ 14	$ 164	$ 137	$ 20	$ 157	4 %

Summary of Net Income

Attributable to participating policyholder							
Net income before policyholder dividends	$ –	$ 511	$ 511	$ –	$ 475	$ 475	8 %
Policyholder dividends	–	497	497	–	455	455	9 %
Net income – participating policyholder	–	14	14	–	20	20	-30 %
Attributable to shareholder							
Preferred shareholder dividends	18	–	18	18	–	18	–
Net income – common shareholder	132	–	132	119	–	119	11 %
	150	–	150	137	–	137	9 %
Net income	$ 150	$ 14	$ 164	$ 137	$ 20	$ 157	4 %
(1) excludes segregated funds deposits of:	*$ 2,430*	*$ -*	*$ 2,430*	*$ 1,954*	*$ –*	*$ 1,954*	*24 %*

QUARTERLY FINANCIAL INFORMATION

(in $ millions, except per common share amounts)

		Total Revenue	Net Income – Common Shareholder [1] Total	Net Income – Common Shareholder [1] Per Share
2001	**Fourth quarter**	**$ 1,752**	**$ 43**	**$ 0.50**
	Third quarter	**1,837**	**(4)**	**(0.05)**
	Second quarter	**2,003**	**48**	**0.54**
	First quarter	**1,591**	**45**	**0.52**
2000	Fourth quarter	$ 2,038	$ 12	$ 0.14
	Third quarter	1,569	35	0.39
	Second quarter	1,630	38	0.44
	First quarter	1,542	34	0.39

(1) Third quarter 2001 includes a charge of $73 million from the events of September 11, 2001.

2001 CONSOLIDATED OPERATING RESULTS

The discussion of operating results is followed by a report on operations presented in terms of the major business units of London Insurance Group:

- *Insurance & Investment Products* – *life insurance products for individual clients, life, health and disability insurance products for group clients, as well as retirement savings and income products for both group and individual clients.*
- *Reinsurance & Specialty General Insurance* – *life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche markets.*

NET INCOME

LIG's net income attributable to shareholders was $150 million in 2001, compared to $137 million for 2000. Net income attributable to common shareholders was $132 million, up from $119 million for 2000.

The net increase in income attributable to common shareholders in 2001 reflected growth in fee income, strong investment performance and favourable mortality and morbidity experience, offset somewhat by a third-quarter claims provision of $73 million in the shareholders account from the events of September 11, 2001, related to the reinsurance business. Shareholders' net income in 2001 also includes a reduction in provisions for Canadian income taxes reflecting both changes in the tax rates and revisions to the estimated pattern or incidence of future taxes to which tax rate reductions apply.

In terms of reportable segments, the increased net income reflects an increase of 67% in Insurance & Investment Products income, as a result of solid operating performance as well as a large reinsurance transaction with Great-West described in note 9(b)(ii) of the financial statements. For the Reinsurance & Specialty General Insurance segment, reduced net income is related to the third-quarter claims provision of $73 million attributable to shareholders and $9 million attributable to participating policyholders from the events of September 11, 2001.

NET INCOME – BY SEGMENT

Years ended December 31 (in $ millions)

	2001	2000	% Change
Net Income – Shareholder			
Insurance & Investment Products	**$ 165**	$ 99	67 %
Reinsurance & Specialty General Insurance			
- events of September 11, 2001	**(73)**	–	–
- other	**40**	40	–
Corporate	**18**	(2)	–
	$ 150	$ 137	9 %

Premiums and Deposits

Total premiums and deposits were up 11% overall from 2000 levels. Risk-based product premiums increased 6%, while deposits to individual segregated funds decreased 15%, and deposits to group segregated funds grew 85% from 2000 levels. However these results include two one-time events during 2001:

- Individual insurance non-participating premiums in 2001 reflect a reduction of $449 million due to London Life ceding, by co-insurance, a specific block of policies to Great-West.
- London Life's Group Retirement Services Division acquired Great-West's group retirement plans. This acquisition resulted in the recognition by London Life of group savings plan risk-based premium income of $199 million and group segregated funds deposits of $775 million.

Excluding these two transactions, total premiums and deposits were up 4% from 2000 levels, with risk-based products other than reinsurance virtually flat, and deposits to individual and group segregated funds lower by 15% and 16%, respectively.

Reinsurance and specialty general insurance premiums increased by 20% related to a decrease in property and casualty and a 55% increase in the life insurance lines. This segment of business can reflect significant revenue increases or decreases depending on the structure of the contract and often is not related to profitability.

Paid or Credited to Policyholders

This amount is made up of increases in policy liabilities, claims, surrenders, annuity and maturity payments, dividend and experience refund payments for guaranteed products, but does not include payment amounts for fee-based products.

In aggregate, $6.2 billion was paid or credited to policyholders in 2001, an increase of 6% compared to 2000.

Policyholder dividends credited in 2001 were $497 million, compared to $455 million in 2000.

Other

Included in other benefits and expenses are operating expenses which remained flat in 2001 with 2000 levels.

PREMIUMS AND DEPOSITS

Years ended December 31 (in $ millions)

	Premiums and Deposits			Sales [1]		
	2001	2000	% Change	**2001**	2000	% Change
Business/Product						
Group Insurance	**$ 555**	$ 593	-6%	**$ 19**	$ 19	–
Individual Insurance						
Life Insurance - Participating	**1,148**	1,132	1%	**44**	50	-12%
- Non-participating	**(269)**	158	–	**30**	22	36%
Retirement & Investment Services						
Individual products	**1,090**	1,306	-17%	**1,687**	2,080	-19%
Group products	**1,746**	873	100%	**241**	187	29%
Reinsurance & Specialty						
General Insurance	**3,455**	2,878	20%	**3,455**	2,878	20%
	$ 7,725	$ 6,940	11%	**$ 5,476**	$ 5,236	5%
Summary by Type						
Risk-based products	**$ 5,295**	$ 4,986	6%			
Segregated funds deposits						
- Individual products	**1,001**	1,181	-15%			
- Group products	**1,429**	773	85%			
Total premiums and deposits	**$ 7,725**	$ 6,940	11%			

(1) Excludes Quadrus distributed mutual funds sales.

ASSETS

Total assets under administration increased 7% to $35.8 billion when compared to 2000. Segregated funds assets increased 16% and general funds assets increased 4%.

Net investment income was $1.7 billion in 2001, compared to $1.6 billion in 2000 mainly due to the increase in general fund assets offset by a general decline in interest rates.

CONSOLIDATED BALANCE SHEET

Years ended December 31 (in $ millions)

	2001			2000		
	Shareholder	Participating Policyholder	Total	Shareholder	Participating Policyholder	Total
ASSETS						
Invested assets	**$ 8,218**	**$ 11,211**	**$ 19,429**	$ 8,289	$ 10,773	$ 19,062
Goodwill	**46**	**–**	**46**	50	–	50
Other assets	**5,385**	**397**	**5,782**	4,828	377	5,205
Total assets	**$ 13,649**	**$ 11,608**	**$ 25,257**	$ 13,167	$ 11,150	$ 24,317
Segregated funds assets			**10,521**			9,045
Total assets under administration			**$ 35,778**			$ 33,362
LIABILITIES, POLICYHOLDER AND SHAREHOLDER EQUITY						
Policy liabilities	**$ 10,906**	**$ 10,113**	**$ 21,019**	$ 10,429	$ 9,585	$ 20,014
Net deferred gains on portfolio investments sold	**156**	**370**	**526**	215	400	615
Other liabilities	**1,079**	**211**	**1,290**	1,088	266	1,354
Total liabilities	**12,141**	**10,694**	**22,835**	11,732	10,251	21,983
Minority shareholder interests	**210**	**–**	**210**	210	–	210
Capital stock and surplus	**1,298**	**914**	**2,212**	1,225	899	2,124
Total liabilities, policyholder and shareholder equity	**$ 13,649**	**$ 11,608**	**$ 25,257**	$ 13,167	$ 11,150	$ 24,317

ASSET DISTRIBUTION

December 31 (in $ millions)

	2001		2000	
Government bonds	**$ 3,986**	**21 %**	$ 4,171	22 %
Corporate bonds	**7,208**	**37**	7,064	37
Mortgages	**5,432**	**28**	5,261	28
Stocks	**515**	**3**	466	2
Real estate	**758**	**4**	741	4
Sub-total portfolio investments	**17,899**		17,703	
Cash & certificates of deposit	**309**	**1**	202	1
Policy loans	**1,221**	**6**	1,157	6
Total invested assets	**$ 19,429**	**100 %**	$ 19,062	100 %

BOND PORTFOLIO QUALITY

(excludes $248 million short-term investments, $449 million in 2000)

Years ended December 31 (in $ millions)

	2001		2000	
Estimated Rating				
AAA	$ 4,180	38 %	$ 3,578	33 %
AA	1,399	13	1,954	18
A	3,726	34	4,058	38
BBB	1,507	14	1,091	10
BB or lower	134	1	105	1
Total	$ 10,946	100 %	$ 10,786	100 %

Bond Portfolio

The total bond portfolio remained at $11.2 billion, representing 58% of invested assets at December 31, 2001, compared to 59% of invested assets at December 31, 2000. Federal, provincial and other government securities represented 36% of the bond portfolio, down slightly from 37% in 2000. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 85% rated A or higher. The quality of the portfolio reflects the Company's conservative investment and lending policies and continuous monitoring of credit quality.

Mortgage Portfolio

The total mortgage portfolio increased slightly to $5.4 billion or 28% of invested assets in 2001 compared to $5.3 billion or 28% of invested assets in 2000. The mortgage portfolio consisted of 31% commercial loans, 33% multi-family/apartments and 36% single family residential loans. Total insured loans were $2.3 billion or 43% of the mortgage portfolio. It is the Company's practice to acquire only high quality commercial loans meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk rating system, which it uses in its underwriting and credit monitoring processes for commercial mortgages. Residential loans are originated by the Company's mortgage planning specialists in accordance with well-established underwriting standards and are well diversified throughout Canada.

Equity Portfolio

The Company's total equity portfolio was $1.3 billion at December 31, 2001 or 7% of invested assets, up slightly from $1.2 billion or 6% of invested assets a year ago. The equity portfolio consists primarily of high quality publicly traded stocks and institutional-grade income producing real estate located in major Canadian economic centers.

Non-performing Loans

The aggregate amount of non-performing loans at December 31, 2001 was $31 million or 0.17% of portfolio investments, compared to $20 million or 0.11% a year ago. Total allowances for credit losses totaled $30 million, compared to $25 million a year ago. Additional provisions for future credit losses on assets backing liabilities are included in actuarial liabilities and amounted to $278 million at December 31, 2001 ($253 million at December 31, 2000).

Liquidity

The Company uses a number of techniques to manage liquidity in the general funds. Products are designed to improve the predictability of their liability cash flows and to reduce the risk of disintermediation. Assets are acquired to provide cash flows that match the requirements of liabilities. A portion of assets is held in highly marketable securities that can be sold to meet any unanticipated cash flow requirements prior to maturity. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access the capital markets for funds.

Liquid assets of over $10 billion provide adequate levels of liquidity, particularly when used in combination with the other methods of liquidity management available to the Company.

LIQUID ASSETS

December 31 (in $ millions)

	2001		2000	
	Balance Sheet Value	Market Value	Balance Sheet Value	Market Value
Cash & certificates of deposit	$ 287	$ 287	$ 160	$ 160
Highly marketable securities				
Government bonds	3,763	3,905	3,939	4,062
Corporate bonds	4,705	4,675	4,513	4,549
Common/Preferred shares	395	405	424	400
Residential mortgages (insured)	972	994	1,100	1,096
Total	$ 10,122	$ 10,266	$ 10,136	$ 10,267

CASHABLE LIABILITY CHARACTERISTICS

December 31 (in $ millions)

	2001	2000
Surrenderable insurance and annuity liabilities		
At market value	**$ 2,131**	$ 2,229
At book value	**8,713**	9,241
Total	**$ 10,844**	$ 11,470

Segregated Funds

During 2001, the Company added 11 segregated funds and assets under management grew by $1.5 billion or 16% to $10.5 billion at year-end. In total, the Company offers 130 segregated funds as part of Individual and Group Retirement Services lines of business, including 76 funds totaling $2.7 billion managed by 17 external managers as sub-advisors to London Life Investment Management (LLIM), a wholly-owned subsidiary of London Life.

SEGREGATED FUNDS ASSETS

December 31 (in $ millions)

	2001	2000	1999	1998	1997
Stocks	**$ 6,442**	$ 5,523	$ 4,052	$ 3,073	$ 2,507
Bonds	**2,552**	2,415	2,193	1,844	1,355
Mortgages	**539**	476	523	517	434
Real Estate	**419**	161	89	85	38
Cash and other	**569**	470	511	430	266
Total	**$ 10,521**	$ 9,045	$ 7,368	$ 5,949	$ 4,600
Internally-managed	**7,773**	6,915	6,068	5,137	4,140
Externally-managed	**2,748**	2,130	1,300	812	460
Year over year growth	**16 %**	23 %	24 %	29 %	–

FINANCIAL STRENGTH

The Office of the Superintendent of Financial Institutions Canada (OSFI) has specified a capital measurement basis for life insurance companies operating in Canada, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). London Life's MCCSR ratio at the end of 2001 was 208% (199% at the end of 2000).

RATINGS OF LONDON INSURANCE GROUP AND MAJOR SUBSIDIARIES

Company	Rating Agency	Financial Strength	Preferred Shares	Commercial Paper
London Insurance Group	A.M. Best		a+	
	DBRS		Pfd-1 (low) n	
	Moody's		A3	
	Standard & Poor's		A/P-1 (low)	
London Life Insurance Company	A.M. Best	A++		
	DBRS	IC-1		R-1 (mid)
	Fitch Ratings	AAA		
	Moody's	Aa2		P-1
	Standard & Poor's	AA+		A-1 (high)
London Reinsurance Group:				
London Life Reinsurance Company *(U.S.)*	A.M. Best	A		
London Life & Casualty Reinsurance Corporation *(Barbados)*	A.M. Best	A		
London Life & General Reinsurance Corporation Limited *(Ireland)*	A.M. Best	A		
London Guarantee Insurance Company	A.M. Best	A+		

DBRS – Dominion Bond Rating Service

Common shareholder equity was $1,048 million at year-end 2001. During 2001, dividends paid to common shareholders were $0.76 per share or $67 million. All of the outstanding common shares are owned by Great-West.

On October 5, 2001, Moody's Investors Service confirmed the ratings of the Company's wholly-owned subsidiary London Life, but changed its rating outlook from stable to negative. The change in outlook reflects Moody's assessment of the uncertainty inherent in gross and net reinsurance loss estimates in connection with the events of September 11, 2001.

On October 12, 2001, A.M. Best Co. downgraded the financial strength rating of London Life Reinsurance Company (LLRC) from A+ (Superior) to A (Excellent). LLRC, a wholly-owned subsidiary of London Reinsurance Group (LRG), conducts LRG's life and annuity reinsurance business, based in Blue Bell, Pennsylvania. The rating action aligns LLRC's rating with the A (Excellent) ratings currently assigned by A.M. Best to LRG's other operating companies, London Life & Casualty Reinsurance Corporation (St. Michael, Barbados) and London Life & General Reinsurance Company Limited (Dublin, Ireland).

All other financial ratings were reaffirmed by the rating agencies.

RISK MANAGEMENT AND CONTROL PRACTICES – LONDON LIFE

Risks Associated with Policy Liabilities

Insurance companies are in the business of assuming and managing risk. Depending on the product being offered, the risks vary. Products are priced for target levels of return, and as experience unfolds pricing assumptions are validated and profit emerges in each accounting period. Policy liabilities reflect reasonable expectations about future risk events, together with a margin. Although pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires updated assumptions to reflect emerging experience results. In this way, the balance sheet reflects the current outlook for future policyholder obligations.

The Boards of Directors of each operating company have approved Standards of Sound Business and Financial Practice for both Pricing and Underwriting (Selection of Risks) of product offerings. Management is responsible for effective execution of these policies. A compliance process is in place for these policies. The Actuary is required to value the policy liabilities and report on the financial condition of each operating company. The Audit Committee of the Board of each operating company reviews the work of the Actuary.

The significant risks and related monitoring and control practices of LIG's operating companies are:

Mortality and Morbidity Risk – Many products provide benefits in the event of death. Benefits due to disabling conditions and medical or dental costs are also important product features. Research and analysis is continuously ongoing to provide the basis for pricing and valuation assumptions which properly reflect the markets where London Life is active.

Persistency (Policy Termination) Risk – Products are priced and valued to reflect the expected duration of contracts. This risk is important for expense recovery (higher costs are incurred in early contract years) and for long-term level premium products where costs increase by age and pricing assumes that some policyholders will discontinue their coverage. Annual research studies support pricing and valuation assumptions for this persistency risk.

Investment Yield Risk – Products are priced and valued based on the investment returns available on assets which back up the policy liabilities. Effective and continual communication between pricing, valuation and investment management is required to control this risk. Investment Policies have been approved by the Boards of Directors of each operating company. These policies provide guidance on the mix of assets allowable for each product segment. Yield rates are derived from the actual mix of assets put in place. Products with longer term cash flows and pricing guarantees carry more risk. Both pricing and valuation react to this risk by requiring higher margins where there is less yield certainty.

Reinsurance Risk – Products with mortality and morbidity risks have specific limits of Company retention approved by the Board of Directors on the recommendation of the Actuary. These limits are reviewed and updated from time to time. The Company also takes advantage of financial risk transfer through reinsurance to enhance earnings. Companies providing reinsurance are reviewed for financial soundness as part of the ongoing monitoring process. The Company is also protected from catastrophic events through purchased coverage.

For additional information on these risks refer to note 4(d), 4(e) and 4(f) of the LIG financial statements.

Risks Associated with Invested Assets

The Company acquires and manages portfolios of assets to produce risk-adjusted returns in support of policyholder obligations and corporate profitability.

The Boards of Directors or the Executive Committees and the Investment and Credit Committees of the Boards of Directors annually approve Investment & Lending Policies, as well as Procedures and Guidelines. A comprehensive report on compliance with these policies, procedures and guidelines is presented to the Boards of Directors or Investment and Credit Committee annually, and the Internal Audit department conducts an independent review of compliance with investment policies, procedures and guidelines on a periodic basis.

The significant risks associated with the invested assets that the Company manages, monitors and controls are outlined below.

Interest Rate Risk – Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change.

For asset/liability management purposes, the general funds are divided into segments. Assets in each segment are managed in relation to the liabilities in the segment. The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Credit Risk – It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry or company. Guidelines specify minimum and maximum limits for each asset class.

Credit ratings for bonds are determined by recognized external credit rating agencies and/or internal credit review. These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment and Credit Committees of the Boards of Directors.

Off-balance sheet credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators.

Liquidity Risk – The Company closely manages operating liquidity through cash flow matching of assets and liabilities and has approximately $10 billion in highly marketable securities.

Foreign Exchange Risk – Investments are normally made in the same currency as the liability. Any foreign currency assets acquired to back liabilities are converted using foreign exchange contracts.

Other Risks – The Company has established specific policy guidelines and monitoring procedures related to environmental risk management in the investment portfolios.

Derivative Instruments

The Company's risk management process governing the use of derivative instruments, includes:

- The Company acts only as an end-user of derivative products, not as a market maker.
- The Company has strict operating policies which:
  - prohibit the use of derivative products for speculative purposes,
  - permit transactions only with approved counterparties,
  - specify limits on concentration of risk,
  - document approval and issuer limits, and
  - document the required reporting and monitoring systems.

The Company's outstanding derivative products at December 31 and the related exposures are described in note 11 of the LIG financial statements.

Recent Accounting Pronouncements

In 2001, the Canadian Institute of Chartered Accountants released final standards on business combinations and goodwill and other intangible assets. These standards are nearly identical to U.S. GAAP standards, also released in 2001. Highlights are:

- elimination of pooling-of-interests accounting for business combinations.
- introduction of non-amortization impairment-only approach for goodwill and other intangible assets with an indefinite life.
- criteria for determining when an acquired intangible asset should be recognized separately from goodwill.
- standards are required to be adopted by public companies for fiscal years beginning (on or after) January 1, 2002.

LIG will adopt these standards and will stop amortizing goodwill effective January 1, 2002. Upon adoption of the new standards, LIG's existing goodwill will be analyzed to identify any amounts that should be recognized as separate intangible assets. The result could be a reclassification of amounts from goodwill to other intangible assets as at January 1, 2002.

The prescribed impairment testing of goodwill and other intangible assets will also be undertaken as part of this process during 2002.

The effect of the adoption of these new standards on LIG's financial position and results of operations has not yet been determined.

BUSINESS SEGMENTS

INSURANCE & INVESTMENT PRODUCTS – LONDON LIFE

Individual Insurance & Investment Products (IIIP) consists of two distinct product divisions – Individual Life Insurance and Retirement & Investment Services (RIS). Products are distributed through Freedom 55 Financial security advisors, as well as independent brokers and intercorporate agreements with other financial institutions.

Net income attributable to common shareholders increased 67% to $165 million, with the strongest growth in RIS and Individual Life Insurance. Results were primarily influenced by favourable mortality experience and effective management of expenses, together with the large reinsurance transaction with Great-West described in note 9(b)(ii) of the financial statements. Although participating life insurance portfolio earnings decreased due to lower investment yields and a claims provision of $9 million related to the events of September 11th, dividend scales remained the same as 2000.

Individual Life Insurance

Individual life insurance sales, as measured by annualized premium, were $74 million in 2001, while revenue premium exceeded $800 million.

Sales premium in 2001 increased 3% compared to 2000. New annualized premium from term insurance sales increased 7% over 2000. The Company enhanced its term insurance products in 2001 by improving the competitive position of rates with the assistance of reinsurance arrangements and improved mortality experience.

During the last two years, the Company expanded its life insurance product offering through two intercorporate agreements with third parties. These agreements provide universal life, term insurance and non-participating permanent products for the over $500,000 high-net-worth market. Sales of these

INDIVIDUAL LIFE – DIVISIONAL SUMMARY

Years ended (in $ millions)

	Individual Life		
	Participating	Non-Participating	Total
December 31, 2001			
Sales premium	$ 44	$ 30	$ 74
Revenue premium income	1,148	(269)	879
December 31, 2000			
Sales premium	$ 50	$ 22	$ 72
Revenue premium income	1,132	158	1,290

INSURANCE & INVESTMENT PRODUCTS – CONSOLIDATED NET INCOME

Years ended December 31 (in $ millions)

	2001			2000		
	Shareholder	Participating Policyholder	Total	Shareholder	Participating Policyholder	Total
Income:						
Premium income	$ 692	$ 1,148	$ 1,840	$ 976	$ 1,132	$ 2,108
Net investment income	429	772	1,201	421	773	1,194
Fee and other income	185	–	185	151	–	151
Total income	1,306	1,920	3,226	1,548	1,905	3,453
Benefits and Expenses:						
Paid or credited to policyholders	735	1,561	2,296	1,067	1,574	2,641
Other	305	244	549	328	234	562
Net operating income before income taxes	266	115	381	153	97	250
Income taxes	101	101	202	54	77	131
Net income before minority shareholder interest	165	14	179	99	20	119
Minority shareholder interest of London Insurance Group subsidiaries						
Preferred shareholder dividends	–	–	–	–	–	–
Minority shareholder interest	–	–	–	–	–	–
	–	–	–	–	–	–
Net income	$ 165	$ 14	$ 179	$ 99	$ 20	$ 119
Summary of Net Income						
Attributable to participating policyholder						
Net income before policyholder dividends	$ –	$ 511	$ 511	$ –	$ 475	$ 475
Policyholder dividends	–	497	497	–	455	455
Net income – participating policyholder	–	14	14	–	20	20
Attributable to shareholder						
Preferred shareholder dividends	$ –	$ –	$ –	$ –	$ –	$ –
Net income – common shareholder	165	–	165	99	–	99
	165	–	165	99	–	99
Net income	$ 165	$ 14	$ 179	$ 99	$ 20	$ 119

products increased to $8 million, a 90% increase over 2000, while sales of the Company's universal life products decreased to $5 million in 2001 from $6 million in 2000.

Sales of participating policies decreased 12%, but were strong in the age 50+ market, where consumers are concerned with wealth management. The retrenchment of participating insurance sales in Canada by competitors, spurred by demutualization, continues to bolster the Company's dominant market position to nearly 40% of Canadian participating insurance sales.

In 2001, non-participating revenue premium reflected a block of London Life life insurance policies which was ceded by co-insurance to Great-West, in the amount of $449 million. Please refer to note 9(b)(ii) of the financial statements for details.

The Company's sound management of its participating insurance businesses enables it to deliver long-term policyholder dividend performance that is consistently among the best in the industry. Participating portfolio investment returns were lower due to market conditions, which created pressure on earnings. However, favourable mortality, morbidity and expense levels allowed the Company to maintain policyholder dividend scales for 2001. A regulated percentage of in-year distributable surplus in the participating account is credited to the shareholders' account. In 2001, the total amount credited was $13 million.

Risk Analysis and Management – The most significant risk in the life insurance business is mortality, which has an impact both on claims paid during the year and on the reserves that must be established to fund future claims. The Company manages this risk primarily through effective underwriting practices, developed to support the long-term sustainability of the business. Because of the long-term nature of life insurance contracts, the impact of underwriting practices tends to emerge 20 or 30 years after contracts are issued, when most claims are incurred. Current mortality experience reflects the diligence of underwriting practices over past decades, as well as today's practices.

A current industry risk involves the pricing of the level cost of insurance option within universal life products. The pricing of this option, guaranteed for the life of the policy, requires a guaranteed interest rate and lapse assumption extending over a long period. A small adverse change in actual long-term lapses or investment returns can lead to significant insufficiency in premiums. Management considers the industry's current pricing of this option to be lower than required to produce adequate profitability, and has avoided significant exposure in this market.

Retirement & Investment Services

The Company's Retirement & Investment Services division experienced mixed sales results in 2001 compared with the previous year. The stock market downturn during the year, together with the events of September 11, 2001, contributed to consumer unease with investment funds and a slight market reversal towards preservation of capital and guarantees.

During 2001, London Life's Group Retirement Services Division successfully acquired and installed Great-West group retirement plans on the London Life administration system. This move allows all group retirement clients the flexibility and features of this industry-leading software. This one-time acquisition resulted in the recognition of group savings plan risk-based premium income of $199 million, segregated funds deposits of $775 million, as well as an increase in related segregated funds assets of $775 million.

Within this difficult investment climate, total assets under administration remained stable. Growth continues in segregated funds, increasing 8% over 2000, excluding the transfer of Great-West business. Total asset growth was offset by the decline in guaranteed product assets due to low interest rates. According to mutual fund asset statistics published by the Investment Funds Institute of Canada (IFIC), total Canadian mutual fund assets increased by only 1.5%, while the

RETIREMENT & INVESTMENT SERVICES – DIVISIONAL SUMMARY(1)

Years ended (in $ millions)

	Individual Savings Plans	Group Savings Plans	Group Investment Management	Payout Annuities	Total
December 31, 2001					
Sales premium					
Risk-based products	$ 345	$ 36	$ –	$ 26	$ 407
Segregated funds	1,316	187	18	–	1,521
Revenue premium income					
Risk-based products	60	317	–	29	406
Segregated funds	1,001	1,411	18	–	2,430
Assets under administration					
Risk-based products	877	1,016	–	1,249	3,142
Segregated funds	6,034	3,251	1,236	–	10,521
Total	$ 6,911	$ 4,267	$ 1,236	$ 1,249	$ 13,663

	Individual Savings Plans		Group Savings Plans		Group Investment Management		Payout Annuities		Total
December 31, 2000									
Sales premium									
Risk-based products	$	520	$	33	$	–	$	30	$ 583
Segregated funds		1,530		141		13		–	1,684
Revenue premium income									
Risk-based products		88		100		–		37	225
Segregated funds		1,181		760		13		–	1,954
Assets under administration									
Risk-based products		932		854		–		1,328	3,114
Segregated funds		5,508		2,255		1,282		–	9,045
Total	$	6,440	$	3,109	$	1,282	$	1,328	$ 12,159

(1) Excludes Quadrus distributed mutual funds sales and assets.

Company's individual savings plans segregated funds grew 9%.

While gross sales of individual savings plans were below 2000 results, the Company's retention experience improved. This higher retention experience contributed to higher net cash flow for individual savings plans in 2001, even though sales were lower. Net cash flow for individual segregated fund assets was 12% of beginning assets, compared with 7% for the Canadian mutual fund industry in 2001, as published by IFIC.

Group savings plan assets also reflected the equity market conditions of 2001, while Group Investment Management sales for 2001 increased 39% from the previous year.

The Company now offers 56 segregated funds to individual Freedom 55 Financial clients.

Mutual Funds – For several years, London Life was involved in the mutual funds market through London Financial Centre (LFC). In 2000, the Company rebranded LFC as Quadrus Investment Services (Quadrus), and established it as a mutual fund dealer for Freedom 55 Financial and Great-West investment representatives†.

In 2001, sales of mutual funds through Quadrus increased 18%, while assets increased 21% over 2000 levels. By year-end, Quadrus had more than 2,600 licensed investment representatives, an increase of 33% over the prior year.

QUADRUS INVESTMENT SERVICES

Years ended December 31 (in $ millions)

		2001		2000
Mutual fund sales	$	**138**	$	117
Distributed mutual fund assets		**969**		803

Quadrus offers 40 mutual funds under the Quadrus Group of Funds brand. Quadrus works closely with Mackenzie Financial Corporation (Mackenzie), a member of the Power Financial Corporation group of companies. This year the exclusive Quadrus Group of Funds moved to an administrative platform managed by Mackenzie, providing our mutual fund clients with broader services. The Company expects significant growth in this relatively new line of business.

† For the sale of mutual funds, licensed financial security advisors are referred to as "investment representatives".

Risk Analysis and Management – The Company's investment fund business is fee-based, with revenue and profitability based on the market value of investment fund assets under administration. Fluctuations in fund assets levels occur as a result of both changes in cash flow and general market conditions. Through its wide range of funds, the Company limits its risk exposure to any particular market. As well, the Company advocates its clients follow a long-term asset allocation approach, which reduces the risk of cash flow changes due to market timing. The success of this approach was evident following the events of September 11, 2001, when the Company experienced minimal asset transfers to money market funds, compared with the mutual fund industry.

At December 31, 2001, 73% of individual segregated funds assets were in diversified funds and "fund of funds" investment profiles, which are designed to optimize returns within a given level of risk.

A risk facing the industry has been the trend towards promoting guarantees against losses on segregated fund investments. The new capital requirement introduced by OSFI at the end of 2000 (based on a risk-adjusted set of factors) influenced the industry to adopt significant changes in product design, with a trend towards more conservative guarantees and, in some cases, increased fees for clients. These changes further increased the competitiveness of the Company's products and lowered future risk for the industry as a whole. The vast majority of the Company's guarantees are for 75% of policyholder deposits, less withdrawals at maturity, rather than the more aggressive 100%.

Group Insurance

The London Life group business is now a closed block of business in that all new sales/clients will be Great-West. Premium levels for in-force business depend on business persistency and the inflationary forces that impact health care costs. Freedom 55 Financial security advisors have access to a range of products

GROUP INSURANCE – DIVISIONAL SUMMARY

Years ended December 31 (in $ millions)

	Premiums and Deposits		
	2001	2000	% Change
Business/Product			
Life	$ 108	$ 118	-8 %
Health	447	475	-6 %
Total	$ 555	$ 593	-6 %

for their business customers, including Great-West's Selectpac small group insurance.

Risk Analysis and Management – The basic risk related to group insurance focuses on the insurer's ability to predict claims experience for the coming year. Most risks facing the group insurance business are mitigated by the fact that most contract rate levels can be adjusted on a yearly basis.

In health care products, claims levels are driven by inflation and utilization. While inflationary trends are relatively easy to predict, claims utilization is less predictable. The impact of aging, which plays a role in utilization, is well documented. However, the introduction of new services, such as break-through drug therapies, has the potential to substantially escalate benefit plan costs. The Company manages the impact of these and similar factors through plan designs that limit new costs and through pricing that takes demographic and other trend factors into account.

In disability products, aging and industry characteristics play a role in establishing future claims patterns. However, there is a growing number of disability claims related to stress and mental/nervous disorders, reflecting changes in the economy and in societal attitudes toward these conditions. The incidence of these claims is more difficult to predict and adjudicate, and they tend to be longer in duration than claims related to other disabilities. These risks are managed through pricing and plan designs that emphasize prevention, earlier intervention and return to work programs.

Outlook – Insurance & Investment Products

Research conducted on Freedom 55 Financial's existing client base reveals a tremendous opportunity to offer retirement and investment products to clients who own insurance.

In the fall of 2001, Freedom 55 Financial introduced a new investment planning process, which the Company anticipates will significantly grow financial security advisors' productivity. In addition, managers across Canada are rolling out a new business planning and activity management tool, which will help members of Freedom 55 Financial to customize their 2002 marketing plans and increase productivity.

Canada's "mass affluent" and "high-net-worth" markets have doubled since 1993, and continue to grow quickly. Increasing the Company's share of these markets is a key priority. Within Freedom 55 Financial, the members of the Wealth & Estate Planning Group are specifically positioned to meet the needs of the mass affluent and high-net-worth markets. Members of this group have access to highly-specialized products, planning tools and support services designed to serve high-net-worth clients.

Members of the Wealth & Estate Planning Group are participating in a business planning program to enhance the operation of their wealth management practice in 2002.

Another important initiative will be to provide financial security advisors with customized product support, which will be tailored to their career-stage and target markets. This initiative will increase the average number of products per client and help position financial security advisors as our clients' primary advisor.

Already one of the largest mutual fund dealers in Canada in terms of distribution, Quadrus will look at opportunities to provide an even broader array of products to investors.

As part of its ongoing commitment to client service, the Division will further enhance technology support to financial security advisors so they can automate certain transactions on behalf of their clients.

REINSURANCE & SPECIALTY GENERAL INSURANCE

The Company conducts its reinsurance and specialty general insurance business primarily through London Reinsurance Group and London Guarantee, which participate in life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche markets.

The 2001 results include a charge in London Reinsurance Group for $82 million after tax, of which $73 million is attributable to common shareholders, related to estimated claims provision from the events of September 11, 2001.

NET INCOME ANALYSIS

Years ended December 31 (in $ millions)

	2001	2000
London Reinsurance Group	$ 45	$ 51
- September 11, 2001 charges	(73)	–
London Guarantee	(1)	10
London Life International	–	(22)
Other	(4)	1
Total	$ (33)	$ 40

London Reinsurance Group (LRG)

The Company's reinsurance business is conducted through London Reinsurance Group (LRG). LRG is a leading global provider of specialty finite reinsurance and holds a strategic position in a number of niche retrocession and reinsurance markets. LRG is a composite reinsurer, reinsuring life, property and casualty, accident and health and annuity business primarily in the United States and Europe, through operating companies in the United States, Barbados and Ireland. LRG is a market leader in the U.S. property and casualty finite retrocession market and holds a strong market share in the U.S. life financial reinsurance market.

Prior to the provision for the events of September 11, 2001, net income for 2001 was $6 million lower than 2000. LRG's core reinsurance product lines in the life, annuity and property and casualty businesses performed well. The major under-performing lines were the accident and health reinsurance and syndicated property and casualty portfolios. The Company terminated its participation in the London, England accident and health and the syndicated property and casualty markets in 1999, and is actively managing the runoff of this business.

The majority of the September 11, 2001 loss came from LRG's property catastrophe portfolio that was written on both a financial reinsurance and traditional reinsurance basis. LRG expects to recover these losses over the next three or four years from its multi-year financial reinsurance contracts or from anticipated premium increases on annually renewable traditional contracts. As part of its September 11 loss, LRG established reserves on its

REINSURANCE & SPECIALTY GENERAL INSURANCE – CONSOLIDATED NET INCOME

Years ended December 31 (in $ millions)

	2001	2000
Income:		
Premium income	$ 3,455	$ 2,878
Net investment income	480	427
Fee and other income	2	2
Total income	3,937	3,307
Benefits and Expenses:		
Paid or credited to policyholders	3,901	3,212
Other	79	62
Net operating income before income taxes	(43)	33
Income taxes	(12)	(10)
Net income before minority shareholder interest	(31)	43
Minority shareholder interest of London Insurance Group subsidiaries		
Preferred shareholder dividends	–	–
Minority shareholder interest	2	3
	2	3
Net income	$ (33)	$ 40

Summary of Net Income

	2001	2000
Attributable to participating policyholder		
Net income before policyholder dividends	$ –	$ –
Policyholder dividends	–	–
Net income – participating policyholder	–	–
Attributable to shareholder		
Preferred shareholder dividends	–	–
Net income – common shareholder	(33)	40
	(33)	40
Net income	$ (33)	$ 40

books for smaller losses in the accident and health, aviation and casualty portfolios.

Premium income increased in 2001 primarily due to the nature of underlying life and property and casualty reinsurance contracts written in 2001. A greater number of structured reserve transfer deals were written in 2001 than in 2000.

Risk Analysis and Management – LRG continues to manage its own risk through the diversification of its business by client, geographic area and type of risk insured. LRG's base of lower risk financial reinsurance business, together with a conservative approach to underwriting, investment and financial management allows LRG to react to a changing business environment.

LRG's capacity to write financial reinsurance business is determined primarily by its ability to issue letters of credit to clients and maintain a strong liquidity position. LRG has a U.S. $1.5 billion syndicated letter of credit facility.

Outlook – LRG

The events of September 11 will affect the international reinsurance markets for many years to come. Losses suffered by reinsurers and the subsequent influx of capital into new and existing reinsurance entities will create challenges for some and tremendous opportunity for others.

LRG's strategies have not changed as a result of September 11 or the shifting reinsurance markets. LRG will maintain its strategy of offering financial reinsurance and expertise to core clients, primarily on a retrocession basis.

LRG expects the reinsurance market to improve substantially in 2002 with increased premium rates and improved terms and conditions. The amount of new capital being raised, however, injects some caution into LRG's forecast.

The reinsurance business LRG wrote in the syndicated property and casualty and the accident and health markets continues to produce disappointing results while in run-off. LRG expects the negative financial impact of this business to continue to decrease over time.

As a retrocessionaire, LRG continues to develop strong business relationships in the reinsurance and insurance industry on a global basis. LRG underwrites both life and non-life reinsurance contracts using a conservative and disciplined approach to underwriting.

London Guarantee

On August 3, 2001, London Insurance Group announced an agreement to sell its interest in London Guarantee Insurance Company, subject to the satisfaction of certain conditions contained in the agreement. At December 31, 2001, the transaction has not been completed.

Within its core businesses, London Guarantee has historically differentiated itself from the competition through the quality of its underwriting and by maintaining strong relationships with its key brokers. This has permitted the Company to historically achieve levels of growth and underwriting profitability that have compared very favourably with the property and casualty industry in general. 2001 proved to be an exception with respect to underwriting profitability because of claims arising from a single large client.

Total premium income increased to $96 million in 2001 from $68 million in 2000. Premiums from the Company's surety lines grew by more than 22%, reflecting its dominant position in central Canada and its penetration into the northeastern United States. The Company's commitment to remain focused on underwriting quality and key broker relationships will ensure its continued success and status as the largest surety underwriter in Canada.

London Guarantee's premium income from its corporate risk lines grew by more than 25% in 2001, and its performance across Canada remained solid. The Company expects a continuation of this strong rate of growth into 2002.

Risk Analysis and Management – London Guarantee insures a broad range of risks within each of its product lines. Its major markets are diverse and stretch across Canada and into the northeastern United States.

In order to protect its capital and its underwriting results, London Guarantee has risk-sharing arrangements in place with well-established North American and European reinsurance companies.

LONDON REINSURANCE GROUP – DIVISIONAL SUMMARY

December 31 (in $ millions)

	2001		2000	
	Premium Income	Assets	Premium Income	Assets
Line of Business				
Life and property and casualty	$ 3,110	$ 5,550	$ 2,507	$ 4,628
Annuity	150	909	217	997
Accident and health	99	90	86	81
Capital and surplus	–	717	–	758
	$ 3,359	$ 7,266	$ 2,810	$ 6,464
Geographic				
Barbados	$ 3,101	$ 5,766	$ 2,551	$ 5,107
Other	258	1,500	259	1,357
	$ 3,359	$ 7,266	$ 2,810	$ 6,464

CORPORATE

The Corporate segment is mainly used to record the business activities and operations that are not associated with the major business units of LIG. The Corporate segment includes investment and fee income, expenses and charges related to capital and other assets not associated with major business units, as well as the reconciliation of total income taxes reported for the shareholder account and the internal allocation of income taxes to the major units.

Net income attributable to common shareholders for the Corporate segment of shareholder operations in 2001 was zero, compared to $(20) million for 2000. The improvement in the 2001 result is a combination of a favourable change in provisions for current and future income taxes, due to both lower rates and revisions to the estimated pattern of future tax to which tax rate reductions apply, offset somewhat by lower investment income on capital related assets.

CORPORATE – CONSOLIDATED NET INCOME

Years ended December 31 (in $ millions)

	2001	2000
Income:		
Premium income	$ –	$ –
Net investment income	20	19
Fee and other income	–	–
Total income	20	19
Benefits and Expenses:		
Paid or credited to policyholders	(3)	4
Other	3	6
Net operating income before income taxes	20	9
Income taxes	(8)	1
Net income before minority shareholder interest	28	8
Minority shareholder interest of London Insurance Group subsidiaries		
Preferred shareholder dividends	10	10
Minority shareholder interest	–	–
	10	10
Net income	$ 18	$ (2)

Summary of Net Income

	2001	2000
Attributable to participating policyholder		
Net income before policyholder dividends	$ –	$ –
Policyholder dividends	–	–
Net income – participating policyholder	–	–
Attributable to shareholder		
Preferred shareholder dividends	18	18
Net income – common shareholder	–	(20)
	18	(2)
Net income	$ 18	$ (2)

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The financial statements necessarily include amounts that are based on management's best estimate due to dependency on subsequent events. These estimates are based on careful judgements and have been properly reflected in the financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that the financial information produced is relevant and reliable.

The consolidated financial statements were approved by the Board of Directors which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee, which consists entirely of Directors not involved in the daily operations of the Company. The function of the Audit Committee is to:

- Review the quarterly and annual financial statements and recommend them for approval to the Board of Directors.
- Review the systems of internal control and security.
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors.
- Review other audit, accounting, financial and security matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Board of Directors of the London Life Insurance Company, pursuant to Section 165(2)(i) of the *Insurance Companies Act* (Canada), appoints the Actuary who is:

- Responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.
- Required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.
- Required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company until December 31, 2005, under adverse economic and business conditions.

Deloitte & Touche LLP Chartered Accountants, as the Company's appointed external auditors, have audited the consolidated financial statements. The Auditors' Report to the Shareholders is presented following the financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements are free of material misstatement and present fairly the financial position of the Company in accordance with Canadian generally accepted accounting principles.

Raymond L. McFeetors
President and Chief Executive Officer

January 30, 2002

William W. Lovatt
Executive Vice-President and Chief Financial Officer

SUMMARY OF CONSOLIDATED OPERATIONS

(in millions of dollars except earnings per common share)

	For the years ended December 31	
	2001	2000
Income		
Premium income	**$ 5,295**	$ 4,986
Net investment income	**1,701**	1,640
Fee and other income	**187**	153
	7,183	6,779
Benefits and Expenses		
Policyholder benefits	**4,913**	4,631
Increase in actuarial liabilities	**659**	529
Policyholder dividends and experience refunds	**622**	697
Total paid or credited to policyholders	**6,194**	5,857
Commissions	**225**	226
Operating expenses	**377**	375
Premium taxes	**29**	29
Net operating income before income taxes	**358**	292
Income taxes – current	**102**	158
– future	**80**	(36)
Net income before minority shareholder interest	**176**	170
Minority shareholder interest of London Insurance Group subsidiaries		
Preferred shareholder dividends	**10**	10
Minority shareholder interest	**2**	3
	12	13
Net income	**$ 164**	$ 157
Earnings per common share	**$ 1.51**	$ 1.36

SUMMARY OF NET INCOME

	2001	2000
Attributable to participating policyholder		
Net income before policyholder dividends	**$ 511**	$ 475
Policyholder dividends	**497**	455
Net income – participating policyholder	**14**	20
Attributable to shareholder		
Preferred shareholder dividends	**18**	18
Net income – common shareholder	**132**	119
	150	137
Net income	**$ 164**	$ 157

CONSOLIDATED BALANCE SHEET

(in millions of dollars)

	December 31	
	2001	2000
Assets		
Bonds (note 2)	**$ 11,194**	$ 11,235
Mortgage loans (note 2)	**5,432**	5,261
Stocks (note 2)	**515**	466
Real estate (note 2)	**758**	741
Loans to policyholders	**1,221**	1,157
Cash and certificates of deposit	**309**	202
Funds withheld by ceding insurers	**4,477**	3,555
Premiums in course of collection	**130**	282
Interest due and accrued	**254**	256
Future income taxes (note 10)	**–**	61
Goodwill	**46**	50
Other assets	**921**	1,051
Total assets	**$ 25,257**	$ 24,317

Approved by the Board:

J W Burns

Director

R. McFeeters

Director

CONSOLIDATED BALANCE SHEET

(in millions of dollars)

	December 31	
	2001	2000
Liabilities		
Policy liabilities		
Actuarial liabilities (note 4)	**$ 18,790**	$ 17,967
Provision for claims	**194**	153
Provision for policyholder dividends	**252**	240
Provision for experience rating refunds	**636**	504
Policyholder funds	**1,147**	1,150
	21,019	20,014
Commercial paper and other loans (note 5)	**401**	420
Current income taxes	**174**	168
Future income taxes (note 10)	**16**	–
Other liabilities	**699**	766
Net deferred gains on portfolio investments sold (note 2)	**526**	615
	22,835	21,983
Minority shareholder interests (note 6)	**210**	210
Policyholder and Shareholder Equity		
Participating policyholder surplus	**911**	897
Capital stock (note 7)	**900**	900
Shareholder surplus	**377**	312
Provision for unrealized gain on translation of net investment in foreign operations		
Participating policyholder	**3**	2
Shareholder	**21**	13
	2,212	2,124
Total liabilities, policyholder and shareholder equity	**$ 25,257**	$ 24,317

CONSOLIDATED STATEMENT OF SURPLUS

(in millions of dollars)

	For the years ended December 31	
	2001	2000
Participating Policyholder		
Balance, beginning of year	**$ 897**	$ 877
Net income	**14**	20
Balance, end of year	**$ 911**	$ 897
Shareholder		
Balance, beginning of year	**$ 312**	$ 260
Net income	**150**	137
Dividends to shareholders		
Preferred shareholders	**(18)**	(18)
Common shareholders	**(67)**	(67)
Balance, end of year	**$ 377**	$ 312

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of dollars)

	For the years ended December 31	
	2001	2000
Operations		
Net income	**$ 164**	$ 157
Adjustments for non-cash items:		
Change in policy liabilities	**1,409**	733
Change in funds withheld by ceding insurers	**(922)**	(1,129)
Change in current income taxes payable	**6**	(38)
Future income tax expense	**80**	(36)
Other	**367**	(15)
Cash flows from operations	**1,104**	(328)
Financing Activities		
Issue of debentures in subsidiary	**–**	200
Repayment of commercial paper and other loans	**(19)**	(198)
Dividends paid	**(85)**	(85)
	(104)	(83)
Investment Activities		
Bond sales and maturities	**6,371**	10,684
Mortgage loan repayments	**1,295**	1,220
Stock sales	**125**	307
Real estate sales	**1**	7
Change in loans to policyholders	**(64)**	(81)
Investment in bonds	**(6,963)**	(10,083)
Investment in mortgage loans	**(1,462)**	(1,092)
Investment in stocks	**(171)**	(393)
Investment in real estate	**(25)**	(76)
Due from parent	**–**	(110)
	(893)	383
Increase (decrease) in cash and certificates of deposit	**107**	(28)
Cash and certificates of deposit, beginning of year	**202**	230
Cash and certificates of deposit, end of year	**$ 309**	$ 202
Supplementary Cash Flow Information		
Income taxes paid	**$ 83**	$ 202
Interest paid	**$ 24**	$ 24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in millions of dollars unless otherwise noted)

1. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

These consolidated financial statements of London Insurance Group Inc. have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of its subsidiary companies. London Life Insurance Company (London Life) is the principal subsidiary at December 31, 2001.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies are as follows:

(a) Portfolio Investments

Investments in bonds and mortgage loans (debt securities) are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized over the period to maturity of the security sold.

Investments in stocks (equity securities) are carried at cost plus a moving average market value adjustment of $11 ($9 in 2000). The carrying value is adjusted towards market value at a rate of 15% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to income at 15% per annum on a declining-balance basis. Market values for public stocks are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for stocks for which there is no active market, are determined by management.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $3 ($(5) in 2000). The carrying value is adjusted towards market value at a rate of 10% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to income at 10% per annum on a declining-balance basis. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by independent qualified appraisers.

(b) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset and liability positions including revenues within guidelines which prohibit their use for speculative trading purposes.

The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position.

(c) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates.

The Company has entered into certain daily average rate forward exchange contracts to manage volatility associated with the translation of its United States operations into Canadian dollars. Net realized foreign exchange gains and losses are included in investment income.

(d) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance, are fully secured by the cash surrender values of the policies and have effective interest rates ranging from 5% to 9%.

(e) Funds Withheld by Ceding Insurers

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer representing the premium due. Investment revenue on these funds withheld is credited to the Company by the ceding insurer.

(f) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries. Goodwill is amortized on a straight-line basis over its useful life but not exceeding periods of 30 years. The Company evaluates the carrying amount of goodwill by reviewing returns and projections of future cash flows of the related businesses. Goodwill is written down when impaired and the amortization periods are revised if it is estimated that the remaining period of benefit has changed.

(g) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future tax assets and liabilities are based on taxable temporary differences. The income tax rates used to measure future tax assets and liabilities are those rates enacted or substantially enacted at the balance sheet date.

(h) Actuarial Liabilities

During 2001, the Company adopted the new standards of the CICA Handbook Section 4210 Life Insurance Enterprises – Specific Items. The new standard requires use of the Canadian Asset Liability Method for valuing actuarial liabilities. In prior years, annuity, group life and health liabilities were determined using cash flow valuation techniques. Other insurance liabilities were determined using the Policy Premium Method. There is no material effect of this change on the financial statements of the Company.

(i) Pension Plans and Other Post Retirement Benefits

London Life maintains contributory and non-contributory defined benefit pension plans for certain of its employees and agents. The plans provide pensions based on length of service and final average earnings. The cost of the defined benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. The current cost of pension benefits is charged to earnings. Adjustments arising from plan amendments or experience gains or losses are amortized over the expected average remaining service life of the employee/agent group. Experience gains and losses are calculated using a market related value of assets. Plan assets are carried at market values and are held in separate trusteed pension funds.

London Life also provides post retirement health and life insurance benefits to eligible employees, agents and their dependents. During 2000, CICA Handbook Section 3461 Employee Future Benefits became effective which requires recognition on an accrual basis of the cost of all post retirement benefits other than pensions over the period of employee service. The cost of defined benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. The current cost of post retirement health and life insurance benefits is charged to earnings. There is no material effect of these requirements on the financial statements of the Company.

(j) Earnings per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted daily average number of common shares outstanding of 87,444,028 (87,444,028 in 2000).

(k) Comparative Figures

Certain of the 2000 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

2. PORTFOLIO INVESTMENTS

(a) Carrying values and estimated market values of portfolio investments are as follows:

		2001 Balance Sheet Value	2001 Market Value	2000 Balance Sheet Value	2000 Market Value
Bonds	– government	$ 3,986	$ 4,137	$ 4,171	$ 4,289
	– corporate	7,208	7,440	7,064	7,138
		11,194	11,577	11,235	11,427
Mortgage loans	– residential single family	1,955	1,998	2,188	2,178
	– residential apartments	1,769	1,868	1,323	1,410
	– retail and shopping centres	666	735	670	735
	– office buildings	518	551	495	525
	– industrial	482	509	543	568
	– other	42	62	42	65
		5,432	5,723	5,261	5,481
Stocks	– public	450	469	430	448
	– private	65	65	36	35
		515	534	466	483
Real estate		758	853	741	806
		$ 17,899	$ 18,687	$ 17,703	$ 18,197

(b) The significant terms and conditions and interest rate ranges of applicable fixed-term portfolio investments gross of provisions are as follows:

2001

	Carrying Value – Term to Maturity – 1 Year or Less	1-5 Years	Over 5 Years	Total	Principal Amount	Effective Interest Rate Ranges
Bonds	$ 930	$ 4,090	$ 6,191	$ 11,211	$ 11,555	2.0%-14.0%
Mortgage loans	1,044	2,111	2,290	5,445	5,458	4.0%-13.8%
	$ 1,974	$ 6,201	$ 8,481	$ 16,656	$ 17,013	

2000

	Carrying Value – Term to Maturity – 1 Year or Less	1-5 Years	Over 5 Years	Total	Principal Amount	Effective Interest Rate Ranges
Bonds	$ 1,006	$ 3,919	$ 6,318	$ 11,243	$ 12,644	3.0%-14.0%
Mortgage loans	1,133	2,241	1,904	5,278	5,295	4.0%-14.5%
	$ 2,139	$ 6,160	$ 8,222	$ 16,521	$ 17,939	

(c) Included in portfolio investments are the following:

(i) Non-performing loans:

	2001	2000
Bonds	$ 23	$ 11
Mortgage loans	8	9
	$ 31	$ 20

Non-performing loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine non-performing status. Loans are classified as non-accrual when:

(1) payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or

(2) the Company no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or

(3) modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

(ii) Allowance for credit losses:

	2001	2000
Bonds and mortgage loans	$ 30	$ 25

(iii) Changes in the allowance for credit losses are as follows:

	2001	2000
Balance, beginning of year	$ 25	$ 38
Provision for credit losses	6	–
Recoveries of prior write-offs	–	5
Write-offs	(1)	(18)
Balance, end of year	$ 30	$ 25

(d) Also included in portfolio investments are modified/restructured loans of $40 ($48 in 2000) that are performing in accordance with the current terms.

(e) Net investment income of $1,701 ($1,640 in 2000) includes amortization of net deferred realized gains (losses) on portfolio investments and unrealized gains (losses) on stocks and real estate as follows:

	2001	2000
Bonds	$ 65	$ 48
Mortgage loans	13	10
Stocks	44	53
Real estate	9	6
	$ 131	$ 117

2. PORTFOLIO INVESTMENTS *(cont'd)*

(f) The balance of net deferred gains (losses) on portfolio investments sold is comprised of the following:

	2001	2000
Bonds	$ **244**	$ 285
Mortgage loans	**29**	33
Stocks	**243**	286
Real estate	**10**	11
	$ **526**	$ 615

(g) Portfolio investments supporting reinsurance contracts:

Included in invested assets are $1,369 ($1,305 in 2000) of assets which are held in various trust and escrow accounts. The assets have been placed in these accounts pursuant to the requirements of U.S. insurance laws or based on the terms of the underlying reinsurance treaty, to support liabilities assumed under certain reinsurance contracts.

3. PLEDGING OF ASSETS

The amount of assets which have a security interest by way of pledging are outlined below by major pledging activity:

	2001	2000
In respect of real estate	$ **125**	$ 127
In respect of reinsurance agreements	**61**	77
	$ **186**	$ 204

4. ACTUARIAL LIABILITIES

(a) **Composition of Actuarial Liabilities and Related Supporting Assets**

(i) The composition of actuarial liabilities is as follows:

	Participating Policyholders		Non-Participating Policyholders		Total	
	2001	2000	2001	2000	2001	2000
Insurance & Investment	$ **8,723**	$ 8,200	$ **4,374**	$ 4,888	$ **13,097**	$ 13,088
Reinsurance	**–**	–	**5,663**	4,861	**5,663**	4,861
Property & Casualty	**–**	–	**30**	18	**30**	18
Total	$ **8,723**	$ 8,200	$ **10,067**	$ 9,767	$ **18,790**	$ 17,967

(ii) The composition of the assets supporting liabilities and surplus is as follows:

	2001					
	Bonds	Mortgage Loans	Stocks	Real Estate	Other	Total
Balance Sheet Value						
Participating						
Insurance & Investment	$ **4,695**	$ **2,394**	$ **51**	$ **–**	$ **1,583**	$ **8,723**
Non-Participating						
Insurance & Investment	**1,935**	**2,114**	**146**	**7**	**172**	**4,374**
Reinsurance	**1,499**	**–**	**62**	**–**	**4,102**	**5,663**
Property & Casualty	**30**	**–**	**–**	**–**	**–**	**30**
Other	**2,479**	**914**	**34**	**324**	**504**	**4,255**
Participating policyholder surplus	**130**	**–**	**180**	**317**	**287**	**914**
Capital and surplus	**426**	**10**	**42**	**110**	**710**	**1,298**
Total Balance Sheet Value	$ **11,194**	$ **5,432**	$ **515**	$ **758**	$ **7,358**	$ **25,257**
Fair Value	$ **11,577**	$ **5,723**	$ **534**	$ **853**	$ **7,358**	$ **26,045**

	2000					
	Bonds	Mortgage Loans	Stocks	Real Estate	Other	Total
Balance Sheet Value						
Participating						
Insurance & Investment	$ 4,343	$ 2,215	$ 36	$ –	$ 1,606	$ 8,200
Non-Participating						
Insurance & Investment	2,350	2,211	112	8	207	4,888
Reinsurance	1,489	–	58	–	3,314	4,861
Property & Casualty	18	–	–	–	–	18
Other	2,519	826	48	424	409	4,226
Participating policyholder surplus	104	9	166	309	311	899
Capital and surplus	412	–	46	–	767	1,225
Total Balance Sheet Value	$ 11,235	$ 5,261	$ 466	$ 741	$ 6,614	$ 24,317
Fair Value	$ 11,427	$ 5,481	$ 483	$ 806	$ 6,614	$ 24,811

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus when realized.

The carrying value of assets backing actuarial liabilities plus the portion of deferred gains associated with actuarial liabilities is $19,064 ($18,321 in 2000). The fair value of these assets is $19,646 ($18,718 in 2000).

(b) Nature of Actuarial Liabilities

Actuarial liabilities represent the amount equal to the carrying value of the assets that, taking into account the other pertinent items on the balance sheet, will be sufficient to discharge the Company's obligations over the term of the liability for its insurance policies and to pay expenses related to the administration of those policies. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, actuarial liabilities have been determined in accordance with the Canadian Asset Liability Method in 2001. In 2000, annuity, group life and health liabilities were determined using cash flow valuation techniques. Other insurance liabilities were determined using the Policy Premium Method.

(c) Changes in Actuarial Liabilities

	Participating Policyholders		Non-Participating Policyholders		Total	
	2001	2000	2001	2000	2001	2000
Balance – beginning of year	**$ 8,200**	$ 7,644	**$ 9,767**	$ 9,692	**$ 17,967**	$ 17,336
Reclassification	**–**	(30)	**–**	3	**–**	(27)
Normal change – new business	**3**	9	**643**	978	**646**	987
– in force	**601**	510	**(463)**	(993)	**138**	(483)
Material assumption changes	**(81)**	67	**(39)**	(41)	**(120)**	26
Foreign exchange rate changes	**–**	–	**159**	128	**159**	128
Balance – end of year	**$ 8,723**	$ 8,200	**$ 10,067**	$ 9,767	**$ 18,790**	$ 17,967

In both 2001 and 2000 assumption changes were made in the provision for future participating policyholder obligations and, in 2000, excess interest rate risk provisions were released for non-participating policyholders.

In 2000 a reclassification was made between participating policyholder actuarial liabilities and participating policyholder funds on deposit, and excess claim risk provisions were released for non-participating policyholders.

(d) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities are adequate to cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

4. ACTUARIAL LIABILITIES *(cont'd)*

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually. The results of this study are analyzed and used to update London Life's experience valuation mortality table for life insurance. Where there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality rate. Although mortality improvements have been observed for many years, no future improvements have been assumed for life insurance valuation.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity – London Life uses industry developed experience tables modified to reflect emerging Company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Investment Returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and policies are used in the Canadian Asset Liability Method to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

Expenses – Unit expense studies are updated regularly to determine an appropriate estimate of future cost for the liability type being valued. Expense improvements are not projected. An inflation assumption consistent with the investment return is incorporated in the estimate of future cost.

Policy Termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where London Life has no experience with specific types of policies or its exposure is limited. London Life has reflected the emerging trend of lower lapsation on lapse supported benefits in its policy liabilities.

Policyholder Dividends – Future policyholder dividends are included in the determination of actuarial liabilities for participating policies. The Actuary has assumed that policyholder dividends will change in the future to reflect the experience of the participating account, consistent with the participating policyholder dividend policy.

(e) **Risk Management**

(i) Interest rate risk – Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

(ii) Credit risk – Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on currently held assets. The net effective yield rate reduction averaged 0.18%.

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2001	2000
Participating Policyholders	**$ 223**	$ 196
Non-Participating Policyholders	**55**	57
	$ 278	$ 253

(iii) Reinsurance risk – Maximum benefit amount limits (which vary by line of business) are established for life and health insurance and property and casualty insurance and reinsurance is purchased for amounts in excess of those limits. Catastrophic accident reinsurance coverage is in place covering up to $200 in claims from a single event under the consolidated program for Great-West Life, Great-West Life & Annuity, and London Life (not including London Reinsurance Group and London Guarantee Insurance Company).

Reinsurance contracts do not relieve London Life from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to London Life. London Life evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts, which include the reinsurance transaction described in Note 9:

	2001	2000
Participating Policyholders	$ 10	$ 10
Non-Participating Policyholders	1,315	453
	$ 1,325	$ 463

(iv) Foreign exchange risk – If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose London Life to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow London Life to modify an asset position to more closely match actual or committed liability currency.

(v) Liquidity risk – Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity needs of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 55% of policyholder liabilities are non-cashable prior to maturity or subject to market value adjustments.

(f) Sensitivity of Actuarial Assumptions

The actuarial assumption most susceptible to change in the short run is future investment returns. One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the Company of an immediate 1% increase or an immediate 1% decrease in the level of interest rates. The effect of an immediate 1% increase in interest rates would be to decrease the present value of these projected cash flows by $14. The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash flows by $10. The level of actuarial liabilities established under the Canadian Asset Liability Method of valuation provides for interest rate movements significantly greater than the 1% shifts shown above.

5. COMMERCIAL PAPER AND OTHER LOANS

(a) Commercial paper and other loans consist of the following:

	2001		2000	
	Balance Sheet Value	**Fair Value**	Balance Sheet Value	Fair Value
Short-Term				
Revolving credit in respect of reinsurance business with interest rates from 2.2% to 3.9% (6.2% to 7.3% in 2000) maturing within one year	**$ 61**	**$ 61**	$ 77	$ 77
Long-Term				
Operating:				
First mortgages secured by real estate and limited recourse mortgages at interest rates from 6.4% to 11.4% maturing at various dates to 2014	**125**	**133**	127	134
Other notes payable at interest rates of 8.0% (8.0% in 2000)	**15**	**15**	16	16
Sub total	**140**	**148**	143	150
Capital:				
6.75% Debentures due August 10, 2015, unsecured (note 9)	**200**	**210**	200	205
Sub total	**200**	**210**	200	205
Total long term	**340**	**358**	343	355
Total	**$ 401**	**$ 419**	$ 420	$ 432
Interest expense on long term loans	**$ 24**		$ 24	

5. COMMERCIAL PAPER AND OTHER LOANS *(cont'd)*

(b) Principal Repayments of Long Term Loans

	Operating	Capital	Total
2002	$ 3	$ –	$ 3
2003	59	–	59
2004	27	–	27
2005	19	–	19
2006	1	–	1
2007 and thereafter	31	200	231
	$ 140	$ 200	$ 340

6. MINORITY SHAREHOLDER INTERESTS

The equity interest of London Insurance Group in London Life was 100% at December 31, 2001 and 2000. The non-controlling interests of London Insurance Group's subsidiaries are:

	2001	2000
Preferred shareholders	$ 200	$ 200
Minority interests in capital stock and surplus	10	10
	$ 210	$ 210

7. CAPITAL STOCK

	2001		2000	
	Number	**Stated Value (thousands)**	Number	Stated Value (thousands)
Authorized				
Unlimited Class 1 Preferred Shares				
Unlimited Class 2 Preferred Shares				
Unlimited Common Shares				
Issued and outstanding:				
Class 1 Series D Preferred Shares	**5,000,000**	**$ 125,000**	5,000,000	$ 125,000
Class 1 Series E Preferred Shares	**5,000,000**	**125,000**	5,000,000	125,000
Common Shares	**87,444,028**	**650,000**	87,444,028	650,000
		$ 900,000		$ 900,000

The Class 1 Series D, 7.25% Non-Cumulative Preferred Shares are redeemable or convertible to Common Shares of the Company at the option of the Company on or after December 31, 2002 or convertible to Common Shares of the Company at the option of the holder on or after December 31, 2002.

The Class 1 Series E, 7.20% Non-Cumulative Preferred Shares are redeemable or convertible to Common Shares of the Company at the option of the Company on or after December 31, 2002 or convertible to Common Shares of the Company at the option of the holder on or after December 31, 2002.

8. PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

(a) Defined Benefit Pension Plans

(i) The status of the Company's defined benefit pension plans is as follows:

	2001	2000
Assets at fair value	$ **865**	$ 912
Accrued benefit obligation	**807**	806
Excess of assets over obligations	**58**	106
Unamortized net experience gains and assumption changes	**(21)**	(80)
Unamortized net asset at transition	**(4)**	(8)
Excess funding contribution balance (reflected in Other Assets)	$ **33**	$ 18
Significant Weighted-Average Actuarial Assumptions:		
Discount rate	**6.75 %**	7.0 %
Expected return on assets	**7.75 %**	8.0 %
Assumed compensation increase	**5.25 %**	5.5 %

(ii) The change in the fair value of plan assets is as follows:

	2001	2000
Fair value of assets, beginning of year	$ **912**	$ 897
Employer contributions	**2**	1
Return on plan assets	**27**	83
Benefits paid	**(76)**	(69)
Fair value of assets, end of year	$ **865**	$ 912

(iii) The change in the accrued benefit obligation is as follows:

	2001	2000
Accrued benefit obligation, beginning of year	$ **806**	$ 793
Current service cost	**14**	21
Interest on accrued pension obligation	**54**	56
Actuarial (gains) losses	**9**	5
Benefits paid	**(76)**	(69)
Accrued benefit obligation, end of year	$ **807**	$ 806

(iv) Pension expense is determined as follows:

	2001	2000
Current service cost	$ **14**	$ 21
Interest on accrued pension obligation	**54**	56
Amortization of net experience gains and assumption changes	**(9)**	(8)
Amortization of net asset at transition	**(4)**	(4)
Expected return on plan assets	**(70)**	(71)
	$ **(15)**	$ (6)

(b) Other Pension Plans

(i) The Company also maintains defined contribution pension plans for certain employees and agents the costs of which are as follows:

	2001	2000
Contributions expensed	$ **2**	$ 2

8. PENSION PLANS AND OTHER POST RETIREMENT BENEFITS *(cont'd)*

(ii) In addition the Company maintains supplemental executive retirement plans for certain key executives which provide certain benefits upon retirement, disability or death.

	2001	2000
In year expense	$ 2	$ 1
End of year total liability	$ 22	$ 22

(c) **Other Post Retirement Benefits**

(i) The status of the Company's other post retirement benefits plans is as follows:

	2001	2000
Accrued other post retirement benefits obligation	$ 144	$ 131
Unamortized experience gain (loss)	(1)	6
Accrued benefit obligation (reflected in Other Liabilities)	$ 143	$ 137

Significant Weighted-Average Actuarial Assumptions:

The discount rate used to determine the accrued benefit obligation was 6.75% at December 31, 2001 and 7.0% at December 31, 2000. In determining the expected cost of health care benefit plans, it was assumed that health care costs would increase by 11.0% in 2001 and that the rate of increase would gradually decrease to a level of 5.0% by 2007.

(ii) The change in the other post retirement benefits obligation is as follows:

	2001	2000
Accrued other post retirement benefits obligation, beginning of year	$ 131	$ 130
Current service cost	3	3
Interest on accrued other post retirement benefit obligation	9	9
Actuarial (gains) losses	6	(6)
Benefits paid	(5)	(5)
Accrued other post retirement benefits obligation, end of year	$ 144	$ 131

(iii) Other post retirement benefits expense is determined as follows:

	2001	2000
Current service cost	$ 3	$ 3
Interest on accrued other post retirement benefit obligation	9	9
	$ 12	$ 12

9. RELATED PARTY TRANSACTIONS

(a) At December 31, 2001:

(i) The Company has notes receivable with Great-West which have an outstanding balance of $768 ($768 in 2000). These notes are non-interest bearing and mature on December 31, 2004.

(ii) London Life has 6.75% Debentures due to Great-West Lifeco which have an outstanding balance of $200 ($200 in 2000) (note 5). Interest expense of $14 on this debt is included in the financial statements ($5 in 2000).

(b) During 2001:

(i) London Life purchased residential mortgages of $178 ($131 in 2000) from Investors Group, a company within the Power Financial Corporation group of companies. London Life sold residential mortgages of $165 ($232 in 2000) to Great-West Life, $79 ($18 in 2000) to segregated funds maintained by London Life and $19 ($0 in 2000) to segregated funds maintained by Great-West Life. London Life purchased residential mortgages of $54 ($0 in 2000) from Great-West Life and segregated funds maintained by London Life purchased residential mortgages of $19 ($0 in 2000) from Great-West Life. London Life purchased residential mortgages of $1 ($15 in 2000) from segregated funds maintained by London Life. All transactions were at market terms and conditions.

(ii) On December 31, 2001, London Life ceded by co-insurance to Great-West Life certain individual non-participating life insurance policies. The transaction resulted in a decrease in premium income of $449, ceding commission income of $20, a decrease in actuarial liabilities of $428, a decrease in invested assets of $428 and investment income of $21. The effect of this transaction on after-tax earnings was an increase in net income of $36. The transaction was at market terms and conditions.

(iii) London Life provided to and received from Investors Group certain administrative services. A total expense of $6 was included in the 2001 financial statements with respect to those services ($6 in 2000). As well, certain administrative services were provided to and received from Great-West, the net of which was an expense to London Life of $33 ($36 in 2000). London Life also obtained property management and leasing services from GWL Realty Advisors Inc, a wholly owned subsidiary of Great-West. A total expense of $5 ($3 in 2000) is included in the 2001 financial statements with respect to those services. All services were provided on terms and conditions at least as favourable as market terms and conditions.

(c) During 2000, London Life repaid $21 of mortgages on real estate to Great-West.

10. INCOME TAXES

(a) Future income taxes consist of the following taxable temporary differences on:

	2001	2000
Policy liabilities	$ (89)	$ (36)
Portfolio investments	18	42
Other	55	55
	$ (16)	$ 61

(b) The Company's effective income tax rate is derived as follows:

	2001	2000
Combined basic Canadian federal and provincial tax rate	42.0 %	43.5 %
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(5.3)	(2.1)
Lower effective tax rates on income not subject to tax in Canada	1.3	(8.0)
Investment income tax	6.4	8.3
Large corporations tax	0.3	–
Impact of rate change on future income taxes	(2.6)	1.5
Miscellaneous	3.7	1.6
Effective income tax rate applicable to current year	45.8	44.8
Increase (decrease) in the income tax rate resulting from prior years' tax adjustments.	5.1	(3.0)
Effective income tax rate	50.9 %	41.8 %

11. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, London Life is an end user of various derivative financial instruments that are not reported on the balance sheet. All contracts are over-the-counter traded and are with counterparties that are highly rated financial institutions.

(a) The following table summarizes London Life's derivative portfolio and related credit exposure:

	2001				
	Notional Amount	Maximum Credit Risk	Future Credit Exposure	Credit* Risk Equivalent	Risk Weighted Equivalent
Interest Rate Contracts					
Swaps	$ 182	$ 8	$ 1	$ 9	$ 2
Foreign Exchange Contracts					
Forward contracts	62	–	1	1	–
Cross-currency swaps	382	10	25	35	7
	444	10	26	36	7
Other Derivative Contracts					
Equity contracts	242	64	16	30	11
	$ 868	$ 82	$ 43	$ 75	$ 20

* *Credit risk equivalent for equity contracts includes a reduction for collateral of $50.*

11. OFF BALANCE SHEET FINANCIAL INSTRUMENTS *(cont'd)*

	2000				
	Notional Amount	Maximum Credit Risk	Future Credit Exposure	Credit* Risk Equivalent	Risk Weighted Equivalent
Interest Rate Contracts					
Swaps	$ 230	$ 3	$ 2	$ 5	$ 1
Foreign Exchange Contracts					
Forward contracts	169	–	2	2	–
Cross-currency swaps	397	11	27	38	8
	566	11	29	40	8
Other Derivative Contracts					
Equity contracts	278	87	22	31	11
	$ 1,074	$ 101	$ 53	$ 76	$ 20

* *Credit risk equivalent for equity contracts includes a reduction for collateral of $78.*

(b) The following table provides the use, notional amount and estimated fair value of London Life's derivative portfolio at December 31:

	2001					
	Contracts Held for Asset/Liability Management				Contracts Held for Other Purposes	
	Notional Amount				Notional Amount	
	1 Year or Less	1-5 Years	Over 5 Years	Total Estimated Fair Value	1 Year or Less	Total Estimated Fair Value
Interest Rate Contracts						
Swaps	$ 24	$ 100	$ 58	$ 8	$ –	$ –
Foreign Exchange Contracts						
Forward contracts	–	–	–	–	62	(1)
Cross-currency swaps	–	140	242	(25)	–	–
	–	140	242	(25)	62	(1)
Other Derivative Contracts						
Equity contracts	5	93	–	60	144	3
	$ 29	$ 333	$ 300	$ 43	$ 206	$ 2

	2000					
	Contracts Held for Asset/Liability Management				Contracts Held for Other Purposes	
	Notional Amount				Notional Amount	
	1 Year or Less	1-5 Years	Over 5 Years	Total Estimated Fair Value	2 Years or Less	Total Estimated Fair Value
Interest Rate Contracts						
Swaps	$ 20	$ 126	$ 84	$ 2	$ –	$ –
Foreign Exchange Contracts						
Forward contracts	65	–	–	(1)	104	–
Cross-currency swaps	1	101	295	(5)	–	–
	66	101	295	(6)	104	–
Other Derivative Contracts						
Equity contracts	4	–	95	86	179	(2)
	$ 90	$ 227	$ 474	$ 82	$ 283	$ (2)

12. CONTINGENT LIABILITIES

The Company and its subsidiaries are subject to individual legal actions arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Company.

In addition, at December 31, 2001 there are six proposed class actions against London Life (four in Ontario, and one in each of British Columbia and Quebec), related to the availability of policyholder dividends to pay future premiums. In June 2001, London Life announced an agreement to settle five such actions. Estimated future settlement benefits of $180 million and expenses related to the administration of the settlement in the amount of $20 million have been fully provided for in existing reserves in London Life's participating account. Actual results could differ from those estimates. The settlement agreement has been approved by the Courts in British Columbia, Quebec and Ontario. The approval is under appeal in Ontario and the provision for the settlement in the participating account is being challenged. There is also a proposed class proceeding in Ontario against the Company and London Life regarding the participation of the London Life participating policyholder account in the financing of the acquisition of London Insurance Group in 1997 by Great-West. These actions are in their early stages, and it is difficult to predict their outcome with certainty. However, based on information presently known, it is not expected that any of these actions will have a material adverse effect on the consolidated financial position of the Company.

13. THE EVENTS OF SEPTEMBER 11, 2001

2001 results include a charge of $73 after-tax in the shareholder account and $9 after-tax in the participating policyholder account related to claims provisions from the events of September 11, 2001, related to the reinsurance business.

14. COMMITMENTS

(a) Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on London Reinsurance Group's (LRG), a subsidiary of London Life, behalf from approved banks in order to further secure LRG's obligations under reinsurance contracts.

LRG has a syndicated letter of credit facility providing U.S. $1.5 billion in letters of credit capacity. The facility has two tranches. One tranche, in the amount of U.S. $1.1 billion, is for a one year term to November 5, 2002. The second tranche, for U.S. $0.4 billion, has a remaining two year term to October 27, 2003. Under the terms and conditions of the facility, collateralization may be required dependant on the future credit ratings of specific LRG subsidiaries and London Life or if a default under the letters of credit agreement occurs. LRG has issued U.S. $710 million in letters of credit under the one year term tranche and U.S. $395 million under the two year term tranche as at December 31, 2001. LRG had issued U.S. $1.1 billion under a previous letter of credit facility at December 31, 2000. In addition, LRG has other bilateral letter of credit facilities totalling U.S. $40 million (2000 – U.S. $40 million). Bonds and debentures in the amount of Cdn $15 million (2000 – Cdn $13 million) have been pledged to support these letters of credit.

(b) On August 3, 2001, an agreement was entered into for the sale of London Guarantee Insurance Company, subject to the satisfaction of certain conditions contained in the agreement. At December 31, 2001, the transaction has not been completed.

15. SEGMENTED INFORMATION

The reportable segments are the participating and shareholder operations of the Company.

The major business units within the operating segments are:

Insurance & Investment Products	– insurance, retirement income and investment savings for individual and group clients.
Reinsurance & Specialty General Insurance	– life, property and casualty, accident and health, annuity coinsurance and specialty insurance in specific niche markets.
Corporate	– business activities and operations that are not associated with the above major business units.

15. SEGMENTED INFORMATION *(cont'd)*

(a) Consolidated Operations

Year Ended December 31, 2001

	Total Company					
	Shareholder				Participating Policyholder	
	Insurance & Investment	Reinsurance & Specialty	Corporate	Total	Insurance & Investment	Total
Income:						
Premium income	$ 692	$ 3,455	$ –	$ 4,147	$ 1,148	$ 5,295
Net investment income	429	480	20	929	772	1,701
Fee and other income	185	2	–	187	–	187
Total income	1,306	3,937	20	5,263	1,920	7,183
Benefits and Expenses:						
Paid or credited to policyholders	735	3,901	(3)	4,633	1,561	6,194
Other	305	79	3	387	244	631
Net operating income before income taxes	266	(43)	20	243	115	358
Income taxes	101	(12)	(8)	81	101	182
Net income before minority shareholder interest	165	(31)	28	162	14	176
Minority shareholder interest of London Insurance Group subsidiaries						
Preferred shareholder dividends	–	–	10	10	–	10
Minority shareholder interest	–	2	–	2	–	2
	–	2	10	12	–	12
Net income	$ 165	$ (33)	$ 18	$ 150	$ 14	$ 164
SUMMARY OF NET INCOME						
Attributable to participating policyholder						
Net income before policyholder dividends	$ –	$ –	$ –	$ –	$ 511	$ 511
Policyholder dividends	–	–	–	–	497	497
Net income – participating policyholder	–	–	–	–	14	14
Attributable to shareholder						
Preferred shareholder dividends	–	–	18	18	–	18
Net income – common shareholder	165	(33)	–	132	–	132
	165	(33)	18	150	–	150
Net income	$ 165	$ (33)	$ 18	$ 150	$ 14	$ 164

Year Ended December 31, 2000

	Total Company					
	Shareholder				Participating Policyholder	
	Insurance & Investment	Reinsurance & Specialty	Corporate	Total	Insurance & Investment	Total
Income:						
Premium income	$ 976	$ 2,878	$ –	$ 3,854	$ 1,132	$ 4,986
Net investment income	421	427	19	867	773	1,640
Fee and other income	151	2	–	153	–	153
Total income	1,548	3,307	19	4,874	1,905	6,779
Benefits and Expenses:						
Paid or credited to policyholders	1,067	3,212	4	4,283	1,574	5,857
Other	328	62	6	396	234	630
Net operating income before income taxes	153	33	9	195	97	292
Income taxes	54	(10)	1	45	77	122
Net income before minority shareholder interest	99	43	8	150	20	170
Minority shareholder interest of London Insurance Group subsidiaries						
Preferred shareholder dividends	–	–	10	10	–	10
Minority shareholder interest	–	3	–	3	–	3
	–	3	10	13	–	13
Net income	$ 99	$ 40	$ (2)	$ 137	$ 20	$ 157

SUMMARY OF NET INCOME

	Insurance & Investment	Reinsurance & Specialty	Corporate	Total	Insurance & Investment	Total
Attributable to participating policyholder						
Net income before policyholder dividends	$ –	$ –	$ –	$ –	$ 475	$ 475
Policyholder dividends	–	–	–	–	455	455
Net income – participating policyholder	–	–	–	–	20	20
Attributable to shareholder						
Preferred shareholder dividends	–	–	18	18	–	18
Net income – common shareholder	99	40	(20)	119	–	119
	99	40	(2)	137	–	137
Net income	$ 99	$ 40	$ (2)	$ 137	$ 20	$ 157

(b) Consolidated Balance Sheet:

	December 31, 2001			December 31, 2000		
	Shareholder	**Participating Policyholder**	**Total**	Shareholder	Participating Policyholder	Total
Assets						
Invested assets	**$ 8,218**	**$ 11,211**	**$ 19,429**	$ 8,289	$ 10,773	$ 19,062
Goodwill	**46**	**–**	**46**	50	–	50
Other assets	**5,385**	**397**	**5,782**	4,828	377	5,205
Total assets	**$ 13,649**	**$ 11,608**	**$ 25,257**	$ 13,167	$ 11,150	$ 24,317
Segregated funds assets			**10,521**			9,045
Total assets under administration			**$ 35,778**			$ 33,362
Liabilities, Policyholder & Shareholder Equity						
Policy liabilities	**$ 10,906**	**$ 10,113**	**$ 21,019**	$ 10,429	$ 9,585	$ 20,014
Net deferred gains on portfolio investments sold	**156**	**370**	**526**	215	400	615
Other liabilities	**1,079**	**211**	**1,290**	1,088	266	1,354
Minority shareholder interest	**210**	**–**	**210**	210	–	210
Capital stock & surplus	**1,298**	**914**	**2,212**	1,225	899	2,124
Total liabilities, policyholder and shareholder equity	**$ 13,649**	**$ 11,608**	**$ 25,257**	$ 13,167	$ 11,150	$ 24,317

(c) Geographic Distribution:

	December 31, 2001		December 31, 2000	
	Income	**Assets**	Income	Assets
Canada	**$ 3,683**	**$ 17,986**	$ 3,506	$ 17,852
International	**3,500**	**7,271**	3,273	6,465
	$ 7,183	**$ 25,257**	$ 6,779	$ 24,317

AUDITORS' REPORT

TO THE SHAREHOLDERS OF LONDON INSURANCE GROUP INC.

We have audited the consolidated balance sheets of London Insurance Group Inc. as at December 31, 2001 and 2000 and the summaries of consolidated operations, the consolidated statements of surplus and the consolidated statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
January 30, 2002

FIVE YEAR SUMMARY

(in millions of dollars except per common share amounts)

	2001	2000	1999	1998	1997
At December 31					
Life insurance in force (face amount)	$ 139,262	$ 141,374	$ 142,657	$ 139,055	$ 138,503
Annuities in force (funds held)	13,603	12,232	11,060	10,233	9,595
Total assets under administration	35,778	33,362	30,880	29,359	27,177
For the Year					
Premiums:					
Life insurance, guaranteed annuities and insured health products	1,840	2,108	2,128	2,262	2,377
Reinsurance and property and casualty	3,455	2,878	2,074	2,690	1,829
Segregated funds deposits	2,430	1,954	1,230	1,404	1,059
Total premiums and deposits	7,725	6,940	5,432	6,356	5,265
Summary of Operations					
Income					
Premium income	$ 5,295	$ 4,986	$ 4,202	$ 4,952	$ 4,206
Net investment income	1,701	1,640	1,679	1,612	1,532
Fee and other income	187	153	135	114	100
Total income	7,183	6,779	6,016	6,678	5,838
Benefits and Expenses					
Paid or credited to policyholders	6,194	5,857	5,037	5,663	4,782
Commissions	225	226	197	190	174
Operating expenses	377	375	429	505	557
Premium taxes	29	29	35	32	39
Termination fee & related sale costs	–	–	–	–	86
Provision for integration costs	–	–	–	–	150
Net operating income before income taxes	358	292	318	288	50
Income taxes – current	102	158	162	46	83
– future	80	(36)	(33)	67	(88)
Net income before minority shareholder interest	176	170	189	175	55
Minority shareholder interest of London Insurance Group subsidiaries	12	13	11	5	4
Net income before sold operations	164	157	178	170	51
Net income from operations sold	–	–	–	–	149
Net income	$ 164	$ 157	$ 178	$ 170	$ 200

	2001	2000	1999	1998	1997
Summary of Net Income					
Attributable to participating policyholder					
Net income before policyholder dividends	$ 511	$ 475	$ 488	$ 492	$ 484
Policyholder dividends	497	455	441	447	426
Net income – participating policyholder	$ 14	$ 20	$ 47	$ 45	$ 58
Attributable to shareholder					
Preferred shareholder dividends	$ 18	$ 18	$ 18	$ 18	$ 23
Net income – common shareholder	132	119	113	107	119
	$ 150	$ 137	$ 131	$ 125	$ 142
Net income	$ 164	$ 157	$ 178	$ 170	$ 200
Earnings per common share	$ 1.51	$ 1.36	$ 1.30	$ 1.24	$ 1.45
Return on common shareholder equity	13.1%	12.6%	12.7%	12.2%	10.2%
Book value per common share	$ 11.99	$ 11.17	$ 10.45	$ 9.96	$ 14.21
Dividends paid to common shareholders					
– per share regular	$ 0.76	$ 0.76	$ 0.76	$ 0.76	$ 0.65
– per share special	$ –	$ –	$ 0.29	$ 4.92	$ –

CORPORATE GOVERNANCE

The Company was incorporated as Lonvest Corporation under the Business Corporations Act (Ontario) by Certificate and Articles of Incorporation dated May 20, 1977. It was continued under section 187 of the *Canada Business Corporations Act* and its name was changed to London Insurance Group Inc. by Certificate and Articles of Continuance dated May 30, 1990.

London Insurance Group is controlled by The Great-West Life Assurance Company, which holds all of London Insurance Group's common shares.

London Insurance Group believes that sound corporate governance is essential to the well being of London Insurance Group and its shareholders. The Board of Directors of London Insurance Group is identical to the Board of London Life Insurance Company. As a result, the processes and structures that are required to properly direct and manage the business and affairs of London Insurance Group (i.e. prudent and effective corporate governance practices) have largely been implemented through London Life. London Insurance Group offers the following comments with respect to its corporate governance practices.

Board and Board Committees

The Board of London Insurance Group is comprised of 22 Directors, and there are currently two Committees of the Board, namely the Audit Committee and the Executive Committee. The mandate of the Board is to supervise the management of the business and affairs of London Insurance Group. The mandate of the Executive Committee is to supervise the management of the business and affairs of London Insurance Group when the Board is not in session. The mandate of the Audit Committee is to review the financial statements of London Insurance Group and public disclosure documents containing financial information and to report on such review to the Board. The Audit Committee has direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The membership of the Audit Committee of London Insurance Group is identical to that of the Audit Committee of London Life and both Audit Committees have the same Chairman.

Board and Board Committee Composition

A majority of the 22 Directors on the Board of London Insurance Group are "unrelated" to London Insurance Group. In addition, a number of Directors are free from any interests in, or relationships with, either London Insurance Group or its controlling shareholder.

The Audit Committee is comprised entirely of unrelated non-management Directors and the Chairman of the Board is a non-management Director.

Board Operation

The Chairman's responsibility toward the efficient operation of the Board includes the recommendation, after consultation, of appropriate candidates for nomination to the Board, the assessment of the effectiveness of the Board as a whole, of the Committees of the Board, and of the contributions of individual Directors, and making recommendations, after consultation, concerning Directors' compensation and any changes that would improve the workings of the Board, including increases or decreases in its size, as well as the development of London Insurance Group's approach to governance issues.

Committees may, at the expense of London Insurance Group, retain such professional advisors as the Committees deem appropriate for purposes of carrying out their duties and responsibilities.

New members of the Board are provided with an orientation concerning London Insurance Group and its business.

Management is expected to develop an annual business plan incorporating the business objectives and key results for which management is responsible each year, and to submit the plan to the Board for approval. Management is expected to implement the plan, to achieve the objectives and results, and to report to the Board on its progress.

Shareholder Matters

In addition to the public disclosure documents which London Insurance Group is required to produce by various regulatory authorities, London Insurance Group communicates with shareholders through quarterly reports, the annual report and press releases when appropriate.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

As of December 31, 2001

James W. Burns, O.C. [2]
Chairman of the Board of the Corporation
Deputy Chairman,
Power Corporation of Canada

Gail S. Asper [1]
Corporate Secretary,
CanWest Global Communications Corp.

Orest T. Dackow [2]
Corporate Director

André Desmarais [2]
President and Co-Chief Executive Officer,
Power Corporation of Canada
Deputy Chairman,
Power Financial Corporation

The Honourable
Paul Desmarais, P.C., C.C.
Chairman of the Executive Committee,
Power Corporation of Canada

Paul Desmarais, Jr. [2]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Chairman, Power Financial Corporation

Robert Gratton [2]
President and Chief Executive Officer,
Power Financial Corporation

Charles H. Hollenberg, M.D., O.C. [2]
Senior Consultant,
Cancer Care Ontario

Daniel Johnson [2]
Of Counsel to McCarthy Tétrault LLP

Kevin P. Kavanagh [2]
Corporate Director
Chancellor, Brandon University

J. Blair MacAulay
Of Counsel to Fraser Milner Casgrain LLP

The Right Honourable
Donald F. Mazankowski, P.C., O.C. [2]
Corporate Director,
Business Consultant

William T. McCallum
Co-President and Chief Executive Officer,
Great-West Lifeco Inc.
President and Chief Executive Officer,
Great-West Life & Annuity Insurance Company

Raymond L. McFeetors [2]
President and Chief Executive Officer,
of the Corporation
Co-President and Chief Executive Officer,
Great-West Lifeco Inc.
President and Chief Executive Officer,
The Great-West Life Assurance Company
President and Chief Executive Officer,
London Life Insurance Company

Randall L. Moffat [1]
Corporate Director

Jerry E.A. Nickerson [1]
Chairman of the Board,
H.B. Nickerson & Sons Limited

Gordon F. Osbaldeston, P.C., C.C. [2]
Corporate Director

The Honourable
P. Michael Pitfield, P.C., Q.C.
Vice-Chairman,
Power Corporation of Canada
Member of the Senate of Canada

Michel Plessis-Bélair, F.C.A. [1,2]
Vice-Chairman and Chief Financial Officer,
Power Corporation of Canada
Executive Vice-President,
and Chief Financial Officer,
Power Financial Corporation

H. Sanford Riley
Chairman of the Board,
Investors Group Inc.

Guy St-Germain, C.M. [1,2]
President,
Placements Laugerma Inc.

Gérard Veilleux, O.C. [1]
Vice President,
Power Corporation of Canada

1 Audit Committee 2 Executive Committee

EXECUTIVE OFFICERS

Raymond L. McFeetors
President and
Chief Executive Officer

Allan S. Edwards
Senior Vice-President
and Actuary

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

Peter G. Munro
Executive Vice-President and
Chief Investment Officer

Sheila A. Wagar
Senior Vice-President,
General Counsel and Secretary

GLOSSARY OF INSURANCE AND FINANCIAL TERMS

Administrative Services Only (ASO):
An arrangement where the insurer provides administrative services for a plan sponsor's health benefits plan, such as maintaining enrollment information and adjudicating claims. The plan sponsor bears some or all of the claim risk.

Annuity:
A contract providing income payments at regular (usually monthly) intervals for a specified period. A life annuity provides payments during the lifetime of the annuitant. An annuity certain provides periodic payments over a specified number of years and is not dependent on any person's survival. The consideration for an annuity is the payment, or series of payments, made to purchase an annuity. An annuity can be purchased as either registered or non-registered funds.

Cash value:
The amount available in cash upon voluntary termination of a policy by its owner before it becomes payable by death or maturity.

Critical illness insurance:
Provides a one-time lump sum benefit to an insured who has been diagnosed with a critical condition. Normally, the insured must be diagnosed with a condition listed in the policy and live a certain period of time following the diagnosis, to collect benefits.

Derivative financial instruments:
Financial contracts that derive their value from the value of an underlying asset or index, such as interest rates, exchange rates, equities or commodities. Derivative transactions are conducted in the over-the-counter market directly between two parties or on regulated exchange markets.

Swaps: Contractual agreements between two parties to exchange a rate of return on one investment for the rate of return on another investment such as a floating rate of interest for a fixed rate of interest. For cross-currency swaps, floating interest payments of one currency are exchanged for floating interest payments in a different currency. Equity index swaps are contracts to pay or receive cash flows based on the increase or decrease in the underlying index.

Options: Convey the right, but not the obligation, to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period. For options purchased, a premium or fee is paid for the right to exercise the option.

Forwards and Futures: Contracts to either buy or sell a specified currency or financial instrument at a specified price and date in the future. Forward contracts are customized and transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Notional Amount: The face or principal value upon which the performance of a derivative contract is based. In general, notional values are not paid or received.

Maximum Credit Risk: The current replacement cost of all outstanding derivative contracts with a positive (receivable by the company) value.

Future Credit Exposure: Represents the potential for future changes in value based upon a formula prescribed by the Superintendent of Financial Institutions Canada.

Credit Risk Equivalent: Represents the total of maximum credit risk and future credit exposure, less collateral.

Risk Weighted Balance: Represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty on a basis prescribed by the Superintendent of Financial Institutions Canada.

Total Estimated Fair Value: The net of contracts in a receivable position (maximum credit risk) and those in a payable position.

Disability insurance:
A type of health insurance designed to compensate insured people for a portion of the income they lose because of a disabling injury or illness. Generally, benefits for disability insurance are in the form of monthly payments. Individual disability insurance policies can be cancellable, where the insurer can terminate the policy at any time by providing written notice and refunding any advance premiums; or non-cancellable, where the insurer must renew the policy until the insured reaches a certain age, and cannot increase premiums.

Experience refund:
The portion of a group insurance premium that is returned to a group policyholder whose claims experience is better than had been expected when the premium was calculated.

Individual Insurance & Investment Products:
A business unit of the Company in Canada, that markets individual clients, and accumulation and payout annuity products for both group and individual clients.

Life insurance in force (face amount):
The amount stated as payable at the death of the insured or at the maturity of the policy.

Living Benefits:
A business unit of the Company in Canada that markets disability and critical illness insurance for individual clients.

Minimum Continuing Capital and Surplus Requirements (MCCSR):
A formula to determine the adequacy of an insurance company's capital, specified by the Office of the Superintendent of Financial Institutions Canada.

Morbidity rate:
The likelihood that a person of a given age will suffer an illness or disability. The premium that a person pays for health insurance is based in part on the morbidity rate for that person's age group.

Mortality rate:
The frequency with which death occurs among a defined group of people. The premium that a person pays for life insurance is based in part on the mortality rate for that person's age group.

New annualized premium:
A measure of new sales, equal to the full first-year premium on all sales made during the year.

Non-participating life insurance:
Life insurance issued on which policyholders do not share in any surplus earnings distributed by the company. No policy dividends are payable. The premium is based on an estimate of future costs and investment earnings very close to what the company feels most likely to occur, with a margin for contingencies and profit.

OSFI:
Office of the Superintendent of Financial Institutions Canada. The federal agency responsible for regulating and supervising banks, insurance, trust, loan and investment companies and co-operative credit associations that are licensed or registered by the federal government.

Participating life insurance:
Life insurance on which policyholders share in the surplus earnings attributable to the participating business. Dividends can be left on deposit in the policy as part of the cash value or can be used to purchase additional coverage, pay premiums or make loan payments.

Persistency:
A measure of how long a policy or block of policies remains in force.

Policy liabilities:
Amounts set aside today, which when combined with future premiums and investment income, will provide for future claims and expenses on those claims.

Policyholder dividend:
A refund to the policyholder each year of a portion of the premium based on the company's experience and anticipated costs. Policy dividends are not guaranteed but depend on mortality experience, investment earnings and other factors and may be increased or decreased at the discretion of the company.

Policyholder surplus:
The excess of assets over liabilities in the participating policyholder account.

Premium income:
The income from sales of insurance policies and retirement savings and income products.

Reinsurance contracts:
Legal agreements in which an insurer (cedant) transfers certain risks on insurance policies to another insurance company (the reinsurer).

RRSP:
Registered Retirement Savings Plan. A plan enabling Canadian citizens to establish tax-sheltered accounts to accumulate money toward retirement. Income taxed on contributions and earnings are deferred until the funds are withdrawn.

Segregated funds:
Investment funds managed separately from an insurance company's general funds, on behalf of clients. Unlike mutual funds, a percentage of the principal invested may be guaranteed in the event of the death of the investor.

Term life insurance:
Insurance which provides protection for a specific length of time, such as one, five, 10 or 20 years. Most plans allow the policyholder to renew for another term or convert the policy to whole life insurance. The cost of term insurance increases as the policyholder ages. Term insurance does not generally have a cash value.

Universal life insurance:
A whole life insurance product in which the mortality, investment and expense factors used to calculate premium rates and cash values are stated separately in the policy. Expense charges are deducted from the premium, and the balance is credited to the policy's cash value. Each month, the insurer deducts mortality costs from the cash value and credits the remainder of the cash value with interest. The policyholder can specify the premium amount, and change the death benefit after the policy has been issued, subject to restrictions established by the company.

Whole life insurance:
Insurance which protects the policyholder throughout his or her lifetime, providing death benefits and building cash value. The policyholder may borrow funds against the value of the policy. The premium paying period may vary, e.g., payments may end after 20 years or at age 65. The cash value continues to build after premiums are fully paid. Also called traditional or permanent insurance.

SHAREHOLDER INFORMATION

HEAD OFFICE

255 Dufferin Avenue,
London, Ontario
N6A 4K1

STOCK EXCHANGE LISTINGS

Symbol: LON.PR.D
LON.PR.E

The Preferred Shares Series D and E are listed on the Toronto Stock Exchange.

TRANSFER AGENT AND REGISTRAR

CIBC-Mellon Trust Company
P.O. Box 1, 320 Bay Street
Toronto, Ontario M5H 4A6

DIVIDENDS

Preferred Shares Series D and E – Dividend record dates are usually between the 14th and 17th of March, June, September, and December. Dividends are paid the last day of each quarter.

INVESTOR INFORMATION

For financial information about London Insurance Group Inc., please contact the Chief Financial Officer at (204) 946-7341.

For copies of the Annual Reports, contact the Secretary's Office at (204) 946-8366.

LONDON
INSURANCE GROUP

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